The Economist

From Goldwater to Bush
LEXINGTON, PAGE 38

Venezuela's oil-rich troublemaker
PAGES 10 AND 23-25

A future for biofuels
PAGES 71-73

Detroit and the unions
PAGE 11

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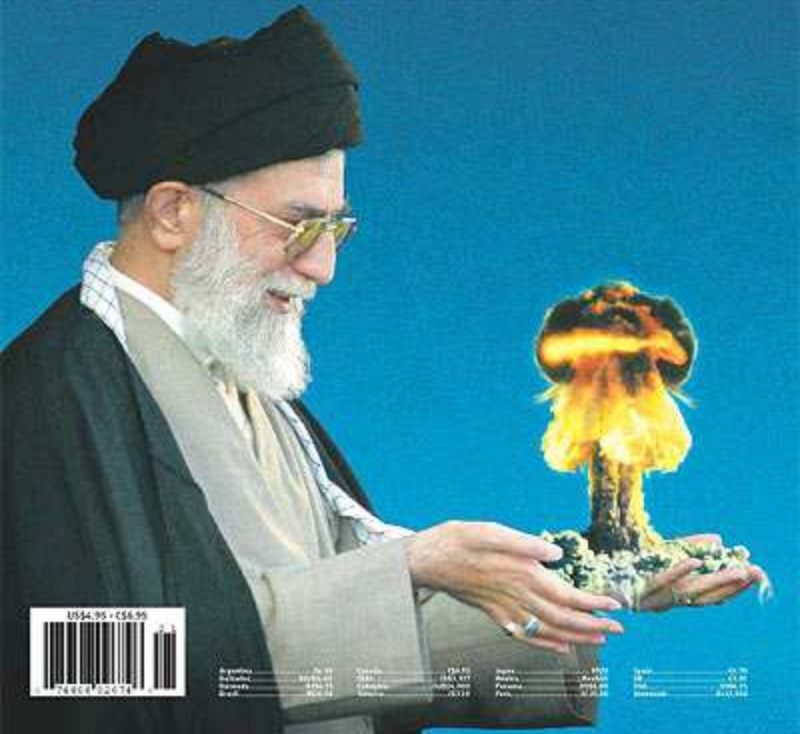
Return of the axis of evil



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Return of the axis of evil

May 14th 2005

Iran has just told Britain, France and Germany that after a pause of six months it is resuming production of a gas that might be enriched to build a nuclear bomb. And North Korea may be preparing its first nuclear test. This is not just a challenge for the United States ... more

The world this week

Politics this week

Business this week

Letters

On the environment, expanding the EU, Britain's Liberal Democrats, trade, broadband, cars, German capitalism, depleted fish stocks

Leaders

Iran and North Korea

India's reformist government, one year on

Latin America and the United States

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Britain's big divide widens
Quirks and biases in the electoral system
Trimble's departure
How immigration played
GPs' salaries rocket
How bad are things?
Falling consumer spending
Where the property crash starts
Fingers on the button

Europe

Worries over Turkey's slow preparations for Europe
Divided Cyprus
Kaliningrad
George Bush's travels around Eastern Europe
The end of Spain's amnesty for illegal immigrants
China's patient crusader

Special Report

The biofuel boom

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America's corporate-debt markets
Hedge funds in trouble
America's online brokers
America's trade deficit
Company pensions in America
Democracy and development

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Euro visions

United States

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The mayor of Spokane is outed

The oil-for-food scandal deepens

A row in the labour movement

A better way to get the poor to save

DNA testing in Virginia

China's image in the heartland

Remembering Barry Goldwater

The Americas

Central American integration

Canada's controversial new war museum

Mexico's first lady

Hunger strike in Haiti

Middle East & Africa

Britain, France and Germany are failing to crimp Iran's nuclear style

Shipwrecks and wreckers

New Asian cinema

Marilyn Monroe by Eve Arnold

Obituary

Bob Hunter, inspirer of Greenpeace

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Economic forecasts

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Precious stones and metals

Emerging-Market Indicators

Overview

Inflation rates

Economy

Financial markets

Phoney electoral reform in Egypt

Hamas gets stronger

Training Iraq's police

Nigeria's army fails to calm the Niger Delta

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India's government at one

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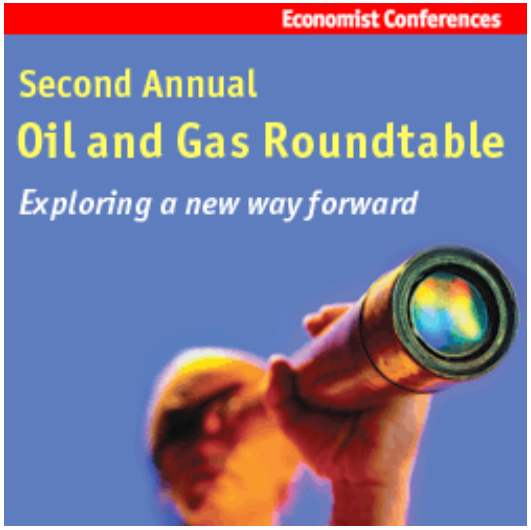

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Business this week

May 12th 2005
From The Economist print edition

General Motors and Ford

After last week's downgrading of **General Motors** and **Ford** to "junk" status (affecting a record $450 billion in debt), bond investors remained jittery on rumours that hedge funds holding GM bonds were nursing big losses. Analysts believe that many funds bought the bonds in March, after a profit warning from GM, expecting that the debt would be oversold.

See article

Fiat announced a first-quarter net profit of *euro*293m ($377m), compared with a net loss of *euro*392m for the same period in 2004; the improved result was due to the first half of a *euro*1.55 billion payment from General Motors, agreed in February as the price for GM's withdrawal from a failed venture.

Toyota, Japan's largest carmaker, reported a 7.3% increase in revenue for the year ending March. Net profit rose to ¥1.17 trillion ($11 billion).

Cegetel and **neuf telecom**, two large telecom firms in France, said they would merge their fixed-line and internet divisions. The new company, called neuf Cegetel, will have 900,000 broadband customers and expects sales of *euro*2.8 billion ($3.6 billion) this year.

Duke Energy, an American power utility, said it would buy its smaller rival, **Cinergy**, for $9.1 billion in stock.

See article

The day of the locust

The chief executive of **Deutsche Börse**, Werner Seifert, was ousted after a shareholder revolt. Rolf Breuer, the chairman of the supervisory board, will step down by the end of 2005. The dissidents were led by hedge funds angered at the German financial-exchange group's recent attempt to take over the London Stock Exchange.

See article

Shareholders in **Absa**, South Africa's biggest retail bank, accepted an offer by Britain's **Barclays** of 33 billion rand ($5.5 billion) for a 60% stake. The deal is the largest-ever foreign direct investment in South Africa and marks Barclays' return to a market it was forced to quit in the 1980s following pressure from anti-apartheid campaigners.

Consob, Italy's stockmarket regulator, ruled that **Banca Popolare di Lodi** acted improperly by failing to state it was working with other parties in building a controlling stake in **Banca Antonveneta**, a larger Italian rival that it wants to buy. Consob also ruled that Lodi must now make a cash offer (it had wanted to pay in shares and bonds), boosting the chances of a rival bid from **ABN Amro**, a Dutch bank.

William Higgins, one of 1,366 owners of the **New York Stock Exchange**, filed a lawsuit trying to stop the exchange's proposed $4 billion acquisition of **Archipelago Holdings**, an electronic exchange, claiming the deal undervalued the NYSE. Mr Higgins's suit also targets Goldman Sachs, which advised both parties in the deal, over a conflict of interest.

Eastman Kodak, a troubled photography group, replaced its boss. Antonio Perez takes over from Daniel Carp, who struggled to implement a strategy to move Kodak from traditional film towards digital photography.

See article

A judge in Chicago decided that **United Airlines**, America's second-largest carrier, could shift four of its pension funds, with liabilities of $6.6 billion, to the Pension Benefit Guaranty Corporation, a federal agency that insures pensions. The ruling was digested by other airlines facing huge losses, and which may now be tempted to offload their pension commitments.

Bucking a trend among major carriers, **Singapore Airlines** reported a 64% rise in net profit, to S$1.4 billion ($829m), for the year ending March 31st.

Shipping news

A.P. Möller-Maersk, the world's largest container-shipping company, will buy its Dutch rival, **P&O Nedlloyd**, in a deal worth *euro*2.3 billion ($3.0 billion). The new company will control around 20% of the global market.

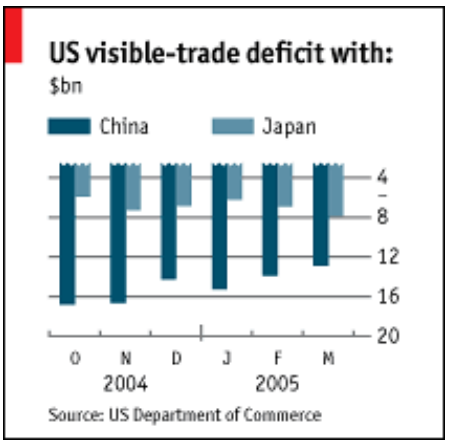
The online travel business continues to consolidate. **Sabre**, owner of Travelocity, bought **lastminute.com**, valuing the British group at £577m ($1.1 billion).

Germany's GDP grew by 1.0% in the first quarter (compared with the last quarter of 2004), the largest quarterly rise since the first quarter of 2001. The increase was driven by a surge in German exports that also improved Germany's trade surplus—which in March increased to *euro*16.3 billion ($21.5 billion).

East is east

America's **trade deficit** in goods and services narrowed to $55 billion in March, the lowest monthly figure since September. Textile imports also fell, by 21.2%, helping to ease America's deficit in goods with China. However, the deficit with Japan increased by $7.8 billion in March (and is 16% higher for the first quarter as a whole compared with last year).

See article



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Politics this week

May 12th 2005
From The Economist print edition

Marching through Georgia

AFP

George Bush's whirlwind tour of **eastern Europe** took him from Riga, Latvia's capital, to Moscow, where he attended President Vladimir Putin's parade to celebrate the 60th anniversary of Victory Day in 1945. The American president then flew on to a rapturous welcome in Georgia, where he praised the people's battle for democracy and for freedom from outside (ie, Russian) interference.

See article

President Putin called for legislation to limit **foreign investment in Russia** in such areas as infrastructure and natural resources. The move, foreshadowed in a speech last month, is part of a backlash in Russia against foreign investors in general.

The European Parliament voted to scrap Britain's opt-out from the European Union's **working-time directive,** which sets a limit of 48 hours for a working week. Britain may muster enough votes in the Council of Ministers to preserve the opt-out.

Silvio Berlusconi's new **Italian government** won a vote of confidence in Italy's lower house to push through measures aimed at boosting the economy.

Tony Blair reshuffled his cabinet after last week's **British** general election returned the Labour Party to power with a much reduced majority of 67 seats. Labour won just 35% of the overall vote, the lowest share for a governing party in modern British history. The Conservative Party leader, Michael Howard, said that he intended to step down before the end of the year.

See article

Critical reaction

North Korea said that it had completed the extraction of fuel rods from its reactor at Yongbyon, and was taking “necessary measures to bolster its nuclear arsenal”. America, South Korea and Japan expressed alarm, and China urged restraint on all sides.

See article

Australia's government delivered a budget promising large tax cuts, mainly for the better-off.

See article

Four people died in riots in **Afghanistan** following claims that the Koran had been desecrated in the American prison at Guantánamo Bay.

India resumed military aid to **Nepal**, suspended after last February's coup.

Following hard on the heels of the KMT's Lien Chan, a second opposition leader from **Taiwan** paid a visit to Beijing. James Soong heads the People First Party, which favours reuniting Taiwan with China.

Not very confident

Canada's minority Liberal government lost a censure vote in parliament brought by the opposition Conservative and Bloc Québécois parties. Paul Martin, the prime minister, said the vote was one of procedure, not of confidence, and he would therefore not call fresh elections. The opposition called for a vote of no confidence; Mr Martin duly set a date of May 19th.

The presidents of Costa Rica, Dominican Republic, Guatemala, Honduras, El Salvador and Nicaragua met with senators in Washington to lobby for the passage of the **Central American Free-Trade Agreement**. The United States signed CAFTA a year ago, but the Bush administration is nervous about seeking the Senate's ratification, given the current mood on NAFTA.

See article

Bolivia's President Carlos Mesa announced that he would not sign a law imposing punitive new taxes on foreign gas companies. Hoping to head off protests by left-wing groups, he has called for a national convention on May 16th to work out a compromise.

A **summit of Arab and South American countries** was held in Brasília. The gathering of 34 nations representing more than 600m people was part of Brazil's bid to establish itself as a leading power in the developing world.

Reuters

Haiti's Supreme Court overturned a landmark conviction of dozens of former military and paramilitary officers found guilty in 2000 of the murder and torture of pro-Aristide supporters in the city of Gonaïves. Haiti's interim prime minister, Gérard Latortue, insisted that the Supreme Court judges had made their decision independently.

See article

Andrés Manuel López Obrador said he would resign as the mayor of **Mexico City** on July 31st so that he can concentrate on his campaign for next year's presidential election.

President's men

George Bush stepped into the fight over **judicial nominations** by calling for an instant vote on two of his candidates to the appeals court. Democrats and Republicans tried to reach a last-minute compromise to avoid a vote on the “nuclear option” of disallowing the use of filibusters to thwart the nominations.

In what is considered to be the last word on the issue, a federal appeals court unanimously ruled that Dick Cheney's 2001 **energy task-force** did nothing wrong in not disclosing its corporate contacts. The case had gone to the Supreme Court, but been sent back.

San Francisco won the race for the headquarters of California's new institute on **stem-cell research**. But two possible lawsuits from conservative groups opposed to the institute may stop bond issues to pay for the research.

David Rosen, a former finance director for **Hillary Clinton's** senatorial campaign in 2000, went on trial for allegedly filing false campaign-finance statements. Although Mrs Clinton is not involved in the trial, Republican opponents are watching the case for any implications for her expected presidential run.

Mayhem undiminished

AP

Following a day (May 11th) in which suicide bombers killed more than 70 people, gunmen in **Iraq** killed an Iraqi general in Baghdad. The new governor of the province of Anbar was kidnapped; his captors demanded the release of fighters loyal to Abu Musab al-Zarqawi, al-Qaeda's man in Iraq.

Iran said it would end an agreement to suspend the conversion of yellowcake into the uranium gas that could be enriched into the fuel for a **nuclear bomb**. The European authors of the agreement said that in that case they would refer Iran to the UN Security Council for possible sanctions.

See article

America's Senate backed a resolution urging Nigeria to extradite **Charles Taylor**, a former Liberian despot, to a UN-backed court in Sierra Leone, where he faces 17 charges of war crimes and crimes against humanity.

See article

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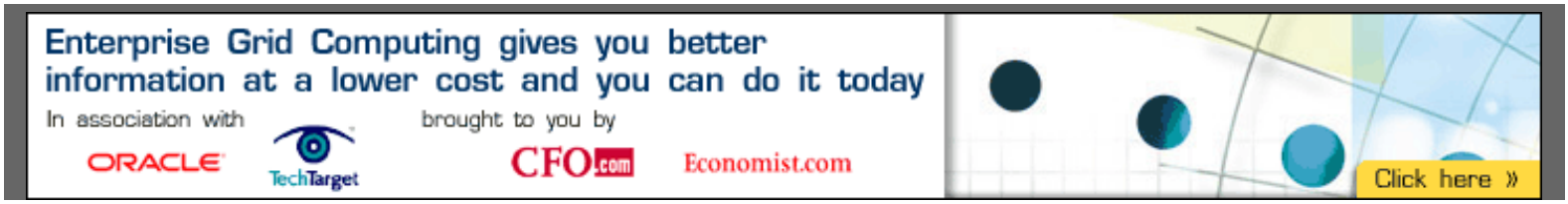

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Letters

May 12th 2005
From Economist.com

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Environmental soundings

SIR – Many environmental organisations have learned to use, if not to love, market forces ("Rescuing environmentalism—and the planet", April 23rd). If some remain sceptical, it is not only a mistrust borne of past industrial disasters. There is also concern that environmental markets will conserve nature for the rich, at the expense of the poor. Eco-markets seem fair: consumers of nature—from polluters to irrigators to bird lovers—are induced to pay for the privilege, while suppliers of ecosystem services are reimbursed for their trouble. However, in practice, the distribution impacts of ecomarkets are uncertain. Markets seek to satisfy consumers who can afford to pay, but ignore the needs of those who cannot.

Moreover, the poorest often lack the skills and capital needed to participate in any markets, eco or otherwise. As in the case of health or education, private providers of ecosystem services should help improve the quantity, quality and efficiency of supply. No doubt there will be winners and losers as ecomarkets grow. The challenge is to make sure that everyone has a stake in the coming green gold rush.

Joshua Bishop
World Conservation Union
Geneva

SIR – Better knowledge about environmental services and their "sound, real (and realistic) values" is indeed a prerequisite for formulating and meeting development goals ("Are you being served?", April 23rd). It is not enough, though. The environmental cost-benefit analysis you describe facilitates the choice between projects with different environmental impacts and between investments in particular forms of natural capital (such as reforestation). However, cost-benefit analysis fails in relating the cost of natural resource depletion and environmental degradation to overall economic performance and development. This can only be done by incorporating environmental cost as natural capital loss or "consumption" (in addition to fixed capital consumption) in the national accounts.

Peter Bartelmus
New York

SIR – You demonstrated the promise that innovative financing schemes hold for protecting the environment. For example, the United States is a leader in forest conservation through debt-for-nature swaps, which allow eligible developing nations to reduce their debt to America while generating funds to protect their tropical forests. Since 2000, we've concluded nine agreements that will generate over $95m to conserve forests over the next two

decades, including two that support Panama's Chagres and Darien national parks.

John Turner
Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs
Washington, DC

SIR – To suggest that "preserving wildlife" is a luxury is a terrible display of ignorance. Ecological systems are complex; their life forms interdependent. The only species that can be remotely considered a non-essential luxury, in ecological terms, is us (humans, I mean, not just economists).

Dane Rowlands
Ottawa

Canada belongs in Europe

SIR – I believe that the citizens of the European Union would be best served if the next expansion of the EU was not to the east but rather to the west, to incorporate Canada ("Now that we are all bundled inside, let's shut the door", April 30th). While this notion might seem odd at first, a little investigation would show that the vast majority of Canadians claim ancestry from the nations of the EU and Canada's cultural, social and economic policies are very similar to those of Europe. Access to NAFTA as well as Canada's natural resources, such as oil and gas, holds obvious advantages for our European brethren. Equally, Canada's easy access to Europe would be just as beneficial to Canada. It is time for Canada to petition the EU for membership. The advantages for both parties are too significant to ignore.

Dan Taylor
Toronto

SIR – You failed to mention the archipelago nation of Cape Verde (which lies to the west of Senegal) whose people and government are keen on belonging to the EU family and are as European as any nation in eastern Europe.

Lurdes Marques
Lisbon

Britain's Liberal Democrats

SIR – There is much in Bagehot's assessment of the Liberal Democrats that is contentious, to say the least (April 30th). But the most ill-founded assertion is that Liberal Democrat foreign policy is "anti-American". Our differences are with the administration of George Bush, differences we share with Democrats in both the Senate and the House of Representatives. The relationship between the British prime minister and the American president has been too uncritical and subordinate. It has undermined Britain's international reputation and influence. The Liberal Democrats seek a balanced, constructive relationship with America—a genuine partnership of influence.

SIR Menzies Campbell, MP
Liberal Democrat deputy leader
London

Trading blows

SIR – Clearly China is cheating in its trade relations, yet your focus on the coercive measures proposed by American legislators makes China look like an innocent bystander ("Putting up the barricades", April 23rd). China pegs the yuan to the dollar to provide its industries with a de facto subsidy. So there are better examples of American protectionism than those towards China—tariffs on European steel and Canadian softwood for instance. Moreover, the fact that George Bush's administration is reluctant to attack China on trade is more a reflection of their dependence on China for their failed fiscal policies rather than China's upright trade practices.

Peter Nielsen
Vancouver, Canada

Broader than broadband

SIR – The next step in the development of the internet is not to be faster, but more widely available (Face value, April 23rd). And this needs technological developments in the terminal device much more than in the network. At a recent geek conference, there was no shortage of Wi-Fi bandwidth, but laptop-bearing nerds had to cluster near the power sockets to use them.

Alec Cawley
Newbury, Berkshire

From Detroit to Longbridge?

SIR – The title of your article on Ford and General Motors questions the future of the American car industry ("How much worse can it get?", April 23rd). It may be worth noting the decline of the car industry in Britain to get an answer. When I was in college in the 1960s, I drove a Triumph TR-3. My best friend drove an MGB. Other friends drove Sprites and Austin Healeys. My girlfriend's mother drove a Cortina and my neighbour drove a Zephyr. The first car that James Bond drove in a film was a Sunbeam Alpine. Now MG Rover has just gone under ("Last rights", April 16th). Apparently, it can get a lot worse.

Jim O'Connell
Solana Beach, California

ONLINE ARTICLES

The following correspondence refers to articles published only online

German capitalism

SIR - Your article on German capitalism ("Locust, pocus", Economist.com, May 5th) does not give adequate importance to a crucial, missing ingredient for German economic growth: positive thinking. Most Germans at work act like they are under attack the whole time: defending their unconditional rights, demeaning their co-workers and grouping into obstructive factions, while Anglo-Saxon thinking remains perpetually positive. Such rigid and negative thinking cannot yield productivity and growth. Instead of criticism, negativism and fear of the future, people in Germany should enjoy their high standard of living and relax. Maybe after another vacation, they will consider living up to the real meaning of *Sozialstaat*, which is solidarity, equal opportunity and a little tender loving care for your work mates.

Andreja Lamberger

Global fish stocks

In your article expressing concern for the sustainability of world fish stocks ("Tragedy of the commons, contd", Economist.com, May 2nd), your mild mention of pollution concerns over fish farms didn't begin to address the full extent of the problems related to such farms. Though many vested interests, including governments, try to deny the evidence of the devastating effects of fish farming as now practised, that evidence is clear to anyone who looks closely enough.

Tom Watts

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Iran and North Korea

Return of the axis of evil

May 12th 2005
From The Economist print edition

An embarrassment for George Bush, and a test for his critics

YOU do not hear George Bush talk much about the “axis of evil” these days. That is no surprise. Rather a lot has gone wrong in the three years since America's president told Congress that it would be catastrophic to allow Iraq, Iran or North Korea to acquire weapons of mass destruction. From the beginning, the melodramatic phrase never travelled well. And after the intelligence fiasco in Iraq, which was discovered after being invaded not to have any especially sinister weapons after all, Mr Bush cannot be eager to cry wolf again.

But despite the phrase, despite Iraq and despite the understandable desire of Mr Bush to change the subject, the fact remains that the wolves are indeed at the door. In the coming days or weeks, the world may face a double nuclear challenge from the axis's surviving members. From North Korea, which quit the Nuclear Non-Proliferation Treaty (NPT) in 2003, have come reports that the regime is preparing its first nuclear test. And Iran has just informed Britain, France and Germany that after six months during which it had suspended these activities, it will shortly resume converting yellowcake into the uranium-hexafluoride gas that can be enriched for a nuclear bomb (see article). It would still be several years from making such a weapon, but it would be back on the way.

If you want a multipolar world, do something

Should either or both of these events come to pass, note please that it is the world and not just America that will have to rise to the challenge. A lot of Mr Bush's critics will not see it that way. They will take satisfaction in his failure to achieve an aim he put at the forefront of his foreign policy in 2002—and they will argue that the example America made of Saddam Hussein turns out to have fed rather than curbed the nuclear appetite of Iran and North Korea. But that argument is magnificently beside the point. The point now is that both Iran and North Korea are unpredictable regimes whose possession of nuclear weapons would be dangerous in its own right and might also persuade other countries in their neighbourhoods to go nuclear as well. Whatever can reasonably be done to stop this proliferation nightmare should be done. And this, for all the talk of a unipolar world with one superpower, is not a job that America should have to do, or probably is able to do, alone.

After the war in Iraq, the British, French and Germans started to talk to Iran about a history of nuclear cheating under the NPT that stretches back 20 years and has cast deep suspicion over the regime's claim that it is interested only in peaceful nuclear energy. One European motive was to see whether there was a better way than American pre-emption to discourage rogue regimes from acquiring nuclear weapons. If the Iranians ignore last-minute pleas and resume converting yellowcake or enriching uranium, the European three will not necessarily have “failed” (though, again, some American critics of Euro-wimpery will say gleefully that they have): the Europeans can justly claim that it was a success of sorts to have talked Iran into stopping for a period. But it would be a failure to leave it at that. To be taken even half seriously in future, the Europeans must do just what they have promised to do in such circumstances, which is to refer Iran to the United Nations Security Council, with an eye to imposing sanctions.

During Mr Bush's first term, the Americans expressed private exasperation with the Europeans. They were impatient for action in the Security Council. Now that America may at last get its way, it will rediscover that the UN is no panacea. The Iranians, after all, have a case to make. They admit to having bent the rules of the International Atomic Energy Agency, which supervises the NPT, but say that they have come clean and have every right to enrich uranium for peaceful ends. Iran's story of innocence is pretty tall, but it is one that powerful members of the Security Council may pretend to believe. Russia wants to sell Iran its reactors, China and Japan to buy its oil and gas. With oil at $50 a barrel, this is not the ideal moment to cut off one of the world's biggest suppliers. If the UN imposes sanctions at all, they are likely at first to be modest.

What, though, is the alternative? The Americans and Europeans have a bad habit of trying to scare the Iranians by threatening them with the Israelis: Congress, as it happens, has just approved the sale of bunker-busting bombs to Israel's highly capable air force. But although the Israelis do not rule out pre-emption as a last resort, they say they would prefer other countries to solve the problem politically. A military strike against Iran's dispersed, buried and concealed nuclear facilities might not succeed, and even if it did could provoke retaliation—with missiles against Israel or by other means against the American project in Iraq. As for North Korea, which is capable of flattening South Korea's capital even without using the nuclear bombs it may already possess, there is no military means of disarming it that does not look prohibitively dangerous.

In theory, the absence of promising military options should be welcome news to Russia, China and the countries of Europe that took such exception to Mr Bush when he seemed to claim a general right of American military pre-emption. But it also obliges them to find another way. China has helped to organise a desultory series of six-country talks with North Korea, and the European three squeezed that six-month freeze out of Iran. What the Europeans and Chinese have yet to do is show that they take the proliferation threat seriously enough to take any risks or make any sacrifices to avert it.

Now is their chance

In the end, there may be no way to persuade countries that are sufficiently paranoid to forgo nuclear weapons. But Iran needs access to world markets—not least in Europe—to provide jobs for a fast-growing population that has fallen out of love with the Islamic revolution, and a pauperised North Korea depends on China for almost all its energy. If these regimes faced credible economic threats at the same time as being offered the right sort of security assurances by the United States, the nuclear genie might yet be pushed back into the bottle. But this will take unity, co-ordination and statecraft of a kind the world has not seen for many years. And time is running out.

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India

Not much to write home about

May 12th 2005
From The Economist print edition

India's reformist prime minister has done remarkably little reforming

Reuters

IT WAS always clear that Manmohan Singh, who unexpectedly took office as India's prime minister a year ago next week, would face an uphill battle. His party, Congress, had not merely failed to secure a majority at the general election: even the 17-strong rag-bag of a coalition it heads is in the minority. To form a government at all it has had to rely on the support, from outside the corridors of power, of a group of communist parties. So although India still needs economic reform by the bushel, and although Mr Singh's credentials as a reformer are unimpeachable, expectations were always tempered.

Even so, he has disappointed them (see article). With one big exception and a few little ones, the government has failed to produce the changes so badly needed if India is to catch up with China—which was, is and looks set to remain the favourite destination of foreign investors. The big exception has been tax reform: Mr Singh has brought in India's first value-added tax, which should widen the tax base and help improve the country's dismal finances. The little ones are a number of modest improvements to the system of caps on investment which, ludicrous though this might seem for a country in India's position, prevent foreigners from committing the heinous crime of putting as much money and know-how as they would like into India's antiquated services and industries.

These small successes merely serve to highlight how much else the government has failed to do in its first year. At least there has been some progress on investment caps: when it comes to privatisation, or attacking the mountainous subsidies paid out by the government to any number of interest groups, or labour-market reform, there has been virtually none at all. One sad consequence has been that India has been slow to cash in on the ending this year of restrictions on the trade in textiles. Because any company employing more than 100 people requires the permission of state authorities to sack workers, few companies have dared expand to take advantage

of increased demand. More flexible China, with a textiles tradition less glorious than India's, has cleaned up at its expense.

Most of the blame for all this attaches not to Mr Singh but to his partners, both within and outside the coalition, who hobbled him from the start by insisting on a “common minimum programme”—for which, read “lowest common denominator”. This excluded in advance most of the main reforms. But Mr Singh deserves criticism too. He has failed to use the power of his office to fight for the reforms he believes in, and has been altogether too meek in twisting his allies' arms. This may well stem from the fact that he is no politician, never having been directly elected to anything.

All that said, economic reform is not everything. India's dynamic private sector continues to perform well despite the many obstacles imposed on it by the government. Mr Singh himself is regarded as dignified, decent, and incorruptible, characteristics that have markedly improved the tenor of politics. Those qualities have paid dividends outside India, too. Mr Singh's moderate style (a great relief after the nationalist hysterics of the Bharatiya Janata Party) has been of importance in repairing relations with Pakistan, which are more harmonious than they have been since before the border skirmish at Kargil in 1999. Mr Singh now has a real opportunity to turn a truce into a peace, and should start by offering a ceasefire in Kashmir. Foreign policy, as every democrat knows, can be a lot easier than the domestic stuff.

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Latin America and the United States

Venezuela's oil-rich troublemaker

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How big a threat is Hugo Chávez?

AFP

AT THE end of last month, Venezuela's president, Hugo Chávez, made yet another trip to Cuba to see his friend and ally, Fidel Castro. He signed a slew of trade and co-operation agreements, deepening what is already a close relationship. In Mr Chávez, Cuba's communist government has at last found a partial replacement for the foreign benefactor it lost when the Soviet Union collapsed. Venezuela is supplying Cuba with all the oil it needs at a subsidised price, in return for the services of thousands of Cuban doctors. Nowadays, Mr Chávez calls himself a "socialist". Before an adoring audience of 800 radicals from Latin America, including Evo Morales, a coca-growers' union leader and would-be president of Bolivia, Mr Chávez and Mr Castro proclaimed an "alternative" to the Free-Trade Area of the Americas, backed by the United States.

To some in the United States, the Venezuelan leader is starting to look like their worst hemispheric nightmare: a second Fidel Castro—but, unlike the Cuban, with lots of oil and therefore money. They accuse him not only of crushing Venezuelan democracy but of destabilising a large chunk of Latin America by helping Colombia's guerrillas and funnelling money to radical movements from Nicaragua to Bolivia. To cap it all, there are signs that he wants to redirect Venezuela's oil exports away from the United States to China.

How alarmed should the Americas be about Mr Chávez? Take those points one by one. Certainly, Venezuela has given Mr Castro what he most wants: a way of circumventing the American trade embargo against his regime, and a rich friend who shares his dream of promoting revolution across Latin America. But time is not on Mr Castro's side. He is 78 and increasingly frail. When he dies, Cuban communism will almost certainly die with him. As for

financing radical movements, so far the United States has not come up with proof to support its claims. And if it were to? Most of the parties Mr Chávez is accused of helping, such as Nicaragua's Sandinistas or Mr Morales's Movement to Socialism, are legal political parties operating in democracies.

More worrying would be claims that Mr Chávez is helping Colombia's FARC guerrillas—if true. His government has, at least, turned a blind eye to guerrilla incursions. Some of Mr Chávez's more radical supporters are friends of the guerrillas. But there are signs that the president realises that he has more to gain from collaborating with Álvaro Uribe, his Colombian counterpart, than with the FARC. As for selling oil to China, so what? Venezuela accounts for little more than 10% of American oil imports. Anyway, oil is a fungible commodity, with an international market.

By far the biggest cause for concern about Mr Chávez is what he is doing to his own country. He has twice been elected, and last year he won a recall referendum. But one by one, he has removed all the checks and balances that are central to democracy, concentrating power in his own hands. He is starting to undermine property rights and place curbs and controls on private business. Far from laying the basis for lasting growth in Venezuela, he is repeating many of the mistakes that have impoverished his country over the past 30 years: instead of trying to diversify away from oil, he is squandering much of the windfall income from high oil prices. Much, but not all: Mr Chávez is hugely popular, mainly because some of the money has gone on programmes which offer tangible benefit to the mass of poor Venezuelans who felt neglected by previous governments (see article).

So what should be done about Mr Chávez? The short answer is not much. The first point to understand about Venezuela's president, a former army officer, is that, like Mr Castro, he thrives on being Washington's bogeyman. For much of the past few years, American policy towards Venezuela has been run by junior officials who have appeared to flirt with regime change. In 2002, the United States failed to condemn, and may have connived in, a short-lived coup against Mr Chávez. That not only sent the wrong message in a region where democracy still needs to be nourished. It played into Mr Chávez's hands, giving him an excuse for repression.

Keep calm, and let history take its course

The United States is now reviewing its policy towards Venezuela. Mr Chávez needs to be watched, especially if he starts to export weapons. But as much as possible, the United States needs to work with Latin American governments on the issue. They have the biggest interest in ensuring that democracy is not extinguished in Venezuela. That means they should press for guarantees that a presidential election next year will be fair. If it is not, that will be the time to invoke the hemisphere's democratic charter and consider sanctions.

With luck, that might not be necessary. Left to run its course, Mr Chávez's “Bolivarian revolution”, a pretty corrupt and incompetent affair, may well implode. But Venezuelans need to learn for themselves that Mr Chávez's brand of socialism is a recipe for poverty and oppression. This is not a lesson they want outsiders—least of all the United States—to ram down their throats.

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Ford and General Motors

Deal or bust?

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Detroit's car industry and its unions now have to reduce legacy employment costs

AP

ONE DAY last week maverick billionaire Kirk Kerkorian was saying he wants to bet $868m to more than double his stake in General Motors to 8.8%; the next, Standard & Poor's, a credit-rating agency, downgrades the debts of both GM and Ford to junk-bond status. Though the bonds had traded at junk-like prices for months, the decision came as a surprise. Jittery bond markets (see article) see a high risk that one of them will be bust five years hence. What is going on in Motown? And who is right: the billionaire or the backroom boys?

As America's two leading carmakers see their domestic market share shrink to dangerous levels, there is a growing realisation that their strategies for dealing with chronic problems are failing. Both have been offering discounts of up to $3,000 per vehicle to keep sales going and cash flowing. It hasn't worked. GM's 30-year slide from 60% of the American market has now taken it to 25%; Ford's share is under 20%: neither shows any sign of arresting this trend, which looks dangerously close to tilting into precipitous decline, at least in their home market (both are now faring better abroad).

The main cause of their problems is not in the factory or even the design shop. Detroit's carmakers are being strangled by concessions they made to the United Auto Workers (UAW) in 1999 when times were good. Any time they want to close a factory and lay people off they face huge bills. Even if they keep workers on the payroll until they retire, GM and Ford are crippled by their past generosity. Pensions and health-care commitments for workers and pensioners amount to about $1,500 per car, or 5% of revenues in GM's case. And the demographics are frightening: after reducing its workforce by two-thirds since the 1980s, GM now has about 2.5 pensioners for every worker. Meanwhile, the American transplant factories of their Asian and European competitors have none of these costs, and have young, non-unionised workforces. Moreover, they were showered with investment grants and

other incentives from grateful states that in some cases could still be worth around $1,000 per car.

What can be done? The road ahead has been partly illuminated by Chrysler, America's number-three producer. After years of grinding pain following its takeover in 1998 by Daimler-Benz, Chrysler is now streaking ahead thanks to a move upmarket propelled by superior products. GM has done the same in reviving Cadillac, but has failed to replicate this in its volume brands. Ford has a hit with its new Mustang, but relies too much on big SUVs and other gas-guzzlers, sales of which are being hit by gasoline costing upwards of $2 a gallon.

Time for jaw, jaw

But the really big challenge for GM and Ford is attacking those legacy costs. That boils down to one thing: Detroit must persuade the unions to give some ground on pensions and health-care. In recent times there have been signs that the UAW leadership recognises the gravity of the problem. And one strong argument to put to them is that by insisting on the preservation of past gains, the union threatens the jobs of younger workers—a foretaste of intergenerational conflict that could become endemic in mature industries.

The pension problem has already smitten steel, textiles and airlines, overloading the already burdened federal Pension Benefit Guaranty Corporation (see article). But that is merely a harbinger of the much bigger problem that will hit other older American companies with defined-benefit pension schemes, as the bulge of baby-boomers heads for retirement. Government can ease its liabilities by taxing, inflating or privatising social security: companies can only seek refuge in Chapter-11 bankruptcy if their burden becomes too great.

In the early and mid-1990s mid-western heavy truck and plant makers Navistar and Caterpillar took on the UAW and emerged as leaner, globally competitive groups, but only after bitter conflicts. GM and Ford can set a new example by talking to the UAW. But, like those other companies, they should make plain their determination to resolve the issue rather than fudge it. It is hard to imagine a better, or tougher, test for labour and capital, but it is in both sides' interests to get Detroit back on the straight and narrow.

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Deutsche Börse

A very unGerman coup

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And a stunning blow for shareholder activism. Now what?

EPA

THERE can be few obsessions as eccentric, unrewarding and at times downright futile as shareholder activism in Germany, a land where the idea that companies should be run for their owners' benefit is often seen as a dangerous Anglo-American dogma. Managers of Germany's public companies are overseen by supervisory boards of workers' and shareholders' representatives. But those who are meant to speak up for shareholders—usually including former bosses of the company and managers of other firms—rarely do.

How momentous, then, that this week shareholders should have toppled the top brass at Deutsche Börse, the German company that (among other things) operates the Frankfurt stock exchange (see article). Werner Seifert, Deutsche Börse's chief executive, was determined to buy London's rival LSE exchange; his supervisory board, chaired by Rolf Breuer, who plays the same role at Deutsche Bank, backed a bid. A misguided waste of money, said several shareholders, who lobbied to derail Mr Seifert's plan. Mr Seifert, convinced of its strategic brilliance, first ridiculed the pesky owners, then fought to brush them off. He failed and not only had to abandon his bid for LSE, but also agreed, too late, to return €1.5 billion ($1.9 billion) to shareholders. The London hedge fund that led the rebel shareholders pressed for Mr Breuer to be sacked and was plainly after Mr Seifert's scalp as well. Now, remarkably, Mr Seifert is gone. Mr Breuer and at least three supervisory board members will follow.

Many people in Germany agreed with a top politician who recently denounced foreign capitalists as “locusts”. The funds that have driven out Messrs Breuer and Seifert are presumably to the fore of this rapacious swarm. Indeed, were they to sell out now for a profit, the funds might find themselves held up as a classic case in point. But the metaphor is grossly misleading. In free capital markets, assets tend to be bought by those who value them most

and who expect to make most from them: the point is to create value, not to destroy it. Mr Seifert thought he had a winning, profitable strategy. The funds thought that he was on an ego trip, pursuing growth at the expense of profit, and they bought shares in the expectation (or was it mere hope?) that they could force a change of tack.

Out with the bold

This is not the perfect cautionary tale it might seem. Although it is extraordinary that such a powerful boss has been ousted, progress by shareholder activists has hardly been steady, and plenty of bad bosses survive because shareholders are unwilling or unable to oust them. One of the strange features of this saga is that the rebel investors were not traditional long-term institutions, but the new breed of hedge funds with their reputation for taking the money and running. Ironically, Mr Seifert had done a good job over the years, bringing Deutsche Börse to the stockmarket and then turning it into one of Germany's 30 top public companies. Mr Breuer's bank has drawn criticism from German politicians for, would you believe, being keen to make money. But together the two men made one big mistake: in their drive to expand by buying the LSE they arrogantly overlooked alternative strategies that might have been more appealing to their shareholders. Did they even know who they were?

Now that those shareholders have achieved the once unthinkable, they have to make the best of their investment. Deutsche Börse's supervisory board and management are in disarray and its strategy will be in question until some time after Mr Seifert is replaced. The funds, which are sitting on fat profits from their foray, may yet find that they have bitten off more than they can chew—a measure will be how many of them are still shareholders a year from now. But at least, unlike Messrs Seifert and Breuer, they are keenly aware of who they answer to. If they lose their investors' money, they will be punished for forgetting the adjectival part of “creative destruction”. And isn't that how capitalism is supposed to work?

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British politics

What the Tories are for

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Two camps of Conservatives are fighting over the soul of the party. Both are half right

Reuters

NOW that Michael Howard has announced he is to repeat the pattern of the past three elections and follow his recent predecessors into an unmourned retirement, a few people are scratching around for something nice to say about the man who led the British Conservative Party to its third successive defeat. The best that anybody can think of is that he brought back some discipline. That's true; but at a cost of a necessary debate about a matter which, since Margaret Thatcher's departure, the party has failed to resolve: what it's for.

Mr Howard is not leaving instantly. He is going to stay around until after the party's autumn conference in order to try to revise its dreadful leadership-election system to increase the chances of getting a leader who is acceptable to voters as well as to the party's geriatric membership. That will leave the Tories in limbo for most of the year, which is probably a good thing, for it will give them a chance to think about ideas first, and choose a leader afterwards.

Things can only get better

The sharpest measure of Mr Howard's failure is that to win a majority of around 50 (17 less than Labour has now), the Tories will need to gain 140 seats and achieve a swing of over 9%. For a party whose support has flat-lined at barely a third of the electorate for 12 years, that is a dauntingly tall order.

Much will depend on who is the next leader, but a new front man is a necessary, not a sufficient, condition of

success. Only a strong leader with a clear mandate for change can alter the direction of a political party, but the party itself must first reach a collective view about roughly what sort of change is required and who is likely to be able to deliver it. When Labour chose Mr Blair in 1994, few in the party can have bargained for what they were getting, but Labour's desperation for power after four successive defeats was such that it wanted to elect the person most likely to challenge its beliefs and force through change.

The Tories' position today is both worse and better than Labour's in the 1990s. What made it relatively easy for Labour to change was that it had lost the battle of ideas. It was Mr Blair's particular genius to coax his party into reconciling itself to the Tory market reforms of the 1980s by arguing that economic efficiency need not be hostile to social justice. By adapting Tory policies, New Labour not only made itself electable, but also made it immensely harder for the Tories to define themselves in a way that was both distinctive and attractive to the swing voters who decide elections.

Those difficulties still plague the Tories. Because they had little to say about the economy (other than proposing some half-hearted tax reliefs) or the running of public services that was easily distinguishable from Labour, they resorted to magnifying differences in immigration policy—a tactic that repelled as many as it attracted. Polling may have told Mr Howard that voters wanted him to bang on about immigration; but when he gave voice to what he thought they were thinking, they didn't like the sound of it after all.

The best thing that can be said for this near-disaster is that the Tories are beginning to talk seriously about ideas. There has long been, lurking below the surface, an ideological split within the party; and now that it is visible, it has become the battleground for the fight over the soul of the Tory party.

One wing of the party yearns for a return to an imagined Thatcherite ideal. It liked the social conservatism of the campaign and blamed its failure at the election on the timidity of the tax cuts offered. These neo-Thacherites include David Davis, the shadow home secretary and frontrunner for the leadership, and Liam Fox, the shadow foreign secretary, and another plausible candidate. They recognise that voters are not baying for tax cuts right now, but believe that will change. Four years from now, they argue, against the background of a failing economy, steep tax rises and Gordon Brown in Number 10, New Labour will be a busted flush and the voters will be ready to support the party. The party should be leading, not following, voters.

The other wing, the self-styled “modernisers”, recoils from the sour tone of a campaign that sent the message that Tories don't much like the country they live in. The modernisers, who include George Osborne and David Cameron, the young stars whom Mr Howard appointed as, respectively, shadow chancellor and shadow education secretary, admire Mr Blair as much as the neo-Thatcherites loathe him. They believe that when the Labour Party dumps him it will veer leftwards, and that will give the Tories the opportunity they are waiting for: to steal back the clothes that Labour nicked from them a decade ago, and turn themselves into a bolder, more socially liberal version of New Labour.

Best of both

Both are half right. A Conservative Party that loses the instinct for the state to do less and tax less is one that has lost a good deal of its point. Equally, a party that fuels prejudice against immigrants, seems to disapprove of the way many Britons lead their lives and which is happy to confine its thoughts on education and health care to dreary slogans about dirty hospitals and naughty children is one that many will find neither relevant nor likeable. Schools and hospitals can be well-funded and yet the state do less, provided those schools and hospitals are increasingly run by independent providers rather than public monopolies. Taxes can be lower yet the poor be properly looked after, provided that tax cuts focus on taking low earners out of tax altogether.

The next Tory leader needs to take the best of the thinking of both the neo-Thatcherite and the modernising camps. He should advocate shrinking the state by cutting taxes for the poor and by encouraging private provision of the services that the state pays for. And he needs to demonstrate to voters—especially women and ethnic minorities, neither of whom think much of the Tories—that the party has hauled its social attitudes out of the 1950s. If he can do both those things, he will deserve what Mr Howard didn't: to become prime minister.

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Hugo Chávez's Venezuela

Oil, missions and a chat show

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Reuters

Hugo Chávez's brand of revolution has delivered some social gains—but at a heavy cost to democracy and economic development

Get article background

TO GET a glimpse of what Hugo Chávez, Venezuela's president, hopes is the future of his country, go to Catia, a gritty district to the west of the city centre of Caracas. There, a defunct petrol-distribution depot has been transformed into what Mr Chávez calls “a nucleus of endogenous development”. To anyone not versed in the vocabulary of Mr Chávez's “Bolivarian revolution”, that means a series of workers' co-operatives and social programmes, all bankrolled by Petróleos de Venezuela (PDVSA), the state oil monopoly.

Three spanking new buildings have gone up round a central meeting area. One houses a well-equipped health clinic. In a second, the government has installed scores of sewing machines. After eight months' training, the 180 women in the Venezuela Advances clothing co-op have started out in business. Their first contract was to make red T-shirts and caps for Venezuela's diplomats to wear on May Day. The third building is a co-operative making shoes. The hillside above has been planted with maize by another co-op of urban market gardeners. Some 1,200 work in the “nucleus”, which cost $6.6m. A planned second phase, costing $8m, will include a “Bolivarian” school, a diagnostic centre and a day nursery.

Across the road stands a small supermarket, similarly new and clean. It is run by Mercal, a state company set up by Mr Chávez to provide cheap food for the poor. Mercal operates on largely commercial lines, but some of its prices are subsidised, at a cost of $25m a month to the government. Brazilian frozen chicken, for example, sells at 1,900 bolívares a kilo (90 American cents at the official exchange rate). On a weekday afternoon, the place is thronged with appreciative shoppers. Mercal has grabbed 40% of the market for staple foodstuffs.

Nearby is a centre for education outreach programmes set up by Mr Chávez. One programme, officially completed, taught adult illiterates to read. Two others allow people to finish their primary or secondary education, and a fourth is giving cramming courses—and the promise of a place in an expanded university system—to 286,000 teenagers who failed to complete secondary school.

Across the city and the country, such scenes are repeated. At 23 de Enero, a vast housing complex, Ángel Sosa conducts a surgery each weekday morning in a converted primary school. He is one of 16,000 doctors lent by Fidel Castro, Cuba's communist president, to Mr Chávez in return for oil. Dr Sosa gives out a range of Cuban medicines, free, to his patients. In the afternoon, he does home visits.

Many Venezuelans are impressed by these “missions”, as the social programmes are called. “If Chávez wasn't there, this wouldn't have happened. He's with the people,” says Yolanda Mendes, an elderly resident, as she waits to see Dr Sosa. Venezuela's opposition sees the Cuban doctors and sports trainers as political cadres spreading communism. “In a way it supports the government,” Dr Sosa says. “But it is really just social work.” And that is how his patients see it.

Mr Chávez, a burly former army officer, owes his survival in power in large part to the “missions”—and to the oil windfall that has made them possible. Ever since 1992, when he staged an unsuccessful military coup against a democratic government, many poorer Venezuelans have seen him as their champion in an impoverished and failing country. They first voted him in as president in 1998, backed him when he rewrote the constitution, and voted for him again under this new charter in 2000.

To many other Venezuelans, especially from the country's fast-shrinking middle class, Mr Chávez is an altogether more sinister figure. They see him as replacing democracy with autocracy, and a mixed economy with something close to communism. Armed with oil wealth, Mr Chávez is said to be doing his best to spread revolution and instability across Latin America.

Untrammelled power

Mr Chávez's opponents, who include political parties of both right and left as well as trade unions, businessmen and NGOs, have done their best to get rid of him, by fair means and foul. In 2002, they briefly ousted him in a coup. Later they mounted a two-month strike-cum-lockout which paralysed the economy.

In August last year, they lost a recall referendum on his presidency. They cried fraud, though without proof. But certainly the government unfairly mobilised all the resources of the state. Before the vote, it registered some 2m new voters. And it deployed the “missions”. At Catia, “we worked with a political target to be ready for August 2004, before the referendum,” says Alejandra Espina, one of the co-ordinators of the “nucleus”. Two months later, the opposition lost key positions in local government. The president's supporters now run all but two of the country's 23 states, and won Caracas, the capital.

The outcome of these battles is that today Mr Chávez enjoys untrammelled power, while the opposition has all but disappeared as an organised force. The president's popularity rating in polls has soared to 70%. Since the referendum, Mr Chávez has begun to steer the Bolivarian revolution, named after South America's independence hero, in a more radical direction. “We're starting to build our own socialist model,” he said last month.

Mr Chávez now exercises complete control over all the institutions of state. In December, he clinched the judiciary, when the pro-government majority in the National Assembly named 12 extra judges to the Supreme Court and replaced others seen as disloyal. The electoral authority, too, has a *chavista* majority (of four to one). In disgust, some opposition supporters boycotted the local elections, tipping the balance in certain states.

“It's a dictatorship with a legal and democratic face,” says Pedro Palma, a businessman and economics professor. That is not how Mr Chávez's people see it. “We have more democracy than before,” says Andrés Izarra, the information minister, pointing to referendums and community participation in budgets.

Certainly Venezuela still has many of democracy's outward trappings. The press is lively and plural, for example. But, little by little, freedoms are being chipped away. A new media law has prompted some self-censorship at opposition radio and television stations, according to Teodoro Petkoff, a newspaper editor. Last month, a public prosecutor charged Carlos Ayala, Venezuela's best-known human-rights lawyer, with involvement in the coup against Mr Chávez. The charge is specious: Mr Ayala not only opposed the coup but, during it, secured the release of a detained *chavista* legislator. Opposition supporters who signed the petition calling for last year's referendum complain of subsequent discrimination, such as being fired from public-sector jobs or being denied passports.

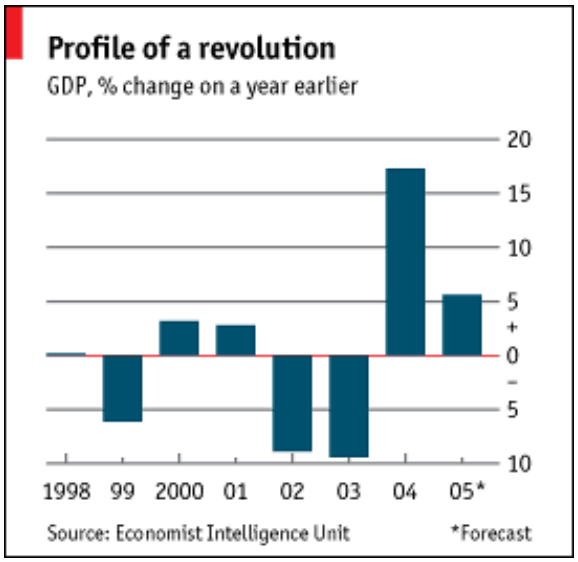
Some Venezuelans fear that a new force of army reserves, supposed to be 1.5m strong, will also be used to harass the opposition. The reserve's ostensible task is to defend the revolution against invasion by the United States (which Mr Chávez says is likely, though American officials pour scorn on that). A proposed purchase of 100,000 Kalashnikovs is needed, Venezuelan officials say, to replace older rifles going to the reserve—and not for Colombia's guerrillas, as some in Washington fear.

Spending the oil windfall

The government has stepped up intervention in the economy, too. In outward appearance Caracas is the most “Americanised” of Latin American capitals, its freeways clogged with big Fords and Chevrolets and girded by billboards for Coca-Cola. Yet the state is steadily increasing its economic presence and control.

Since the referendum, Mr Chávez has set up a new state airline, a phone company, a cement firm and a television news channel to spread his message across Latin America. But the government's main economic effort is the workers' co-ops. Private business faces more curbs. The government long ago imposed exchange controls and price controls on staples. Banks have been ordered to earmark 29% of their total loans for farming and housing, at subsidised rates. With inflation running at 16%, the central bank has decreed a cap on bank-lending rates of 28%.

In the countryside, Mr Chávez has launched a noisy “war on the *latifundio*”, or large estate. So far, only two big estates, one of them belonging to Britain's Vestey Group, have been partly expropriated; hundreds more are under scrutiny. Mr Chávez says that only ranchers with “unproductive” holdings or improper title have anything to fear. But some Venezuelans say the government is acting illegally. They fear wider infringement of property rights. The government's National Lands Institute has ordered hundreds of industrial firms in Valencia, west of Caracas, to produce title back to 1848.



Even so, the economy grew strongly last year (see chart), as it bounced back from the strike. The growth is fuelled by high oil prices, which have been turned into a massive increase in public spending. Under Mr Chávez, spending

by the central government has risen from 19% of GDP in 1999 to 31% of GDP last year. Many businessmen “are making money as never before”, says Roberto Bottome of VenEconomy, a consultancy. But, outside the oil industry, there is little new investment. “Everyone is scared,” says Óscar García Mendoza, a banker.

More than ever, what sustains Venezuela is oil. Last year, oil exports brought in $29 billion (85% of total exports), up from $22 billion in 2001. In the past, when oil prices were high, the government saved some of the windfall, to spend when they fell. But Mr Chávez scrapped that arrangement. He is spending as if there were no tomorrow. Last year, oil provided 52% of government revenue—some $25 billion. On top of that, PDVSA provided another $3.7 billion, off the books, for social programmes. Even so, last year the government ran a fiscal deficit of 2.8% of GDP. Under Mr Chávez, public debt has risen from 29% of GDP to 39% last year.

Thanks to high prices, oil revenue is rising even as output declines. Officially, Venezuela is producing its OPEC quota of 3.1m barrels per day. But industry sources say output is in fact just 2.7m bpd. Of that, multinationals account for 1.2m bpd (up from 300,000 in 1998). PDVSA's production has halved over that period, to 1.5m bpd. It may fall further. After the strike, Mr Chávez sacked 18,000 of PDVSA's 32,000 workers, replacing some of them with loyalists. Officials argue, not without reason, that the firm had become an all-powerful state within a state. But opponents counter that an efficient firm, run on technical not political lines, has been destroyed.

The government has an ambitious plan to expand oil output to 5m bpd by 2009, mainly by bringing in foreign state-owned oil firms. Meanwhile, it is trying to extract as much revenue as possible. In April, it gave its multinational partners, which include ChevronTexaco of the United States, Brazil's Petrobras, Britain's BP and Royal Dutch/Shell, six months to switch to new contracts. These would turn their operations into joint-ventures in which the government would have a 51% stake, as well as increasing the income tax they pay. High oil prices mean that the multinationals may acquiesce.

The government's spending binge means that the economy is “extraordinarily vulnerable” to any fall in oil prices or in production, according to Orlando Ochoa, an economist at the Catholic University. Even so, Mr Chávez has cards up his sleeve. He appears set on selling Citgo, a big refiner and marketer of gasoline in the United States and a subsidiary of PDVSA. Second, officials have proposed that the government should be able to spend the central bank's “excess” reserves.

Sooner or later, the spending binge risks a monumental hangover. Venezuela is spending part of its capital. If and when oil revenues fall, the economy would descend into an inferno of recession and inflation. But that is highly unlikely to happen before a presidential election in December 2006, at which Mr Chávez looks sure to win another six-year term.

Worrying as many of these trends are, they do not remotely add up to Cuban communism. So what exactly is the nature and destination of Mr Chávez's revolution? And how has a country which was once the most prosperous in Latin America, with a seemingly stable democracy, come under the thrall of such a regime?

From riches to rags

From 1913-50, Venezuela's economy grew faster than any other in the world. The overthrow of a dictatorship in 1958 ushered in what many came to see as the most solid democracy in Latin America, with a growing middle class. It was based on a power-sharing pact between two parties, one social democratic and the other Christian democratic. But this regime was less solid than it seemed.

Reuters

Hugo and Fidel: friends, but not twins

From its peak in the mid-1970s, the ratio of oil revenue to population moved against Venezuela, partly because migrants flooded in from poorer neighbouring countries. The obvious solution was to use oil money to diversify the economy. In the 1970s, Carlos Andrés Pérez, a social democrat, nationalised the oil industry and used its revenues to create new heavy industries run by the state. As oil prices sank and debt spiralled, Venezuela's long boom came to a painful end. On “Black Friday”, in February 1983, the bolívar was devalued. Since then, Venezuela has grown steadily poorer.

Poverty exposed the weakness of Venezuelan democracy, and made political corruption harder to tolerate. By late 1993, when Andrés Velásquez, a left-wing trade union leader who might have been a democratic reformer, was narrowly defeated in an election marred by fraud, most Venezuelans agreed with Mr Chávez that the system (the “fourth republic”, as he called it) was wholly discredited.

What, then, of Mr Chávez's “fifth republic”? For all its faults, governments of the fourth republic were more accountable than that of Mr Chávez. At least until the referendum, the president conformed rather closely to a classic Latin American type—that of the populist *caudillo* or strongman. Such populists granted benefits to the middle class and urban workers, mobilising them against opponents symbolic or real—usually the landed “oligarchy” and its foreign backers, such as the United States. They claimed to be revolutionaries, but wanted to re-arrange capitalism rather than destroy it. They fulfilled their social promises by borrowing or printing money, and thus left their countries poorer than when they found them.

In Venezuela's case, since Mr Chávez took office, poverty has certainly risen: in 1999, 54% of households were poor, rising to 60% last year, according to official figures. But much of the historical agenda of populism, such as agrarian reform and oil nationalisation, had already been carried out by the governments of the fourth republic. So, at least until recently, Mr Chávez spouted against the “oligarchy”, but changed little.

Since the referendum, however, the “process”, as its supporters call it, appears to be moving into a new stage. Mr Chávez now says the goal is “21st-century socialism”. His meaning is unclear. At a meeting in November of his senior officials, Mr Chávez said the revolution's long-term objective was to “transcend the capitalist model”. The alternative, he said, is not communism (or at least “it is not proposed at the moment”) but “the social, humanist, egalitarian economy”.

Rather than the 21st century, the “process”, as it is evolving, looks similar to the left-wing military government that ran Peru in the 1970s under General Juan Velasco, a hero of Mr Chávez's. Velasco hugely expanded the state's economic role, and formed thousands of co-operatives. This experiment collapsed in debt and inflationary stagnation. Today, no more than a handful of the co-ops survive.

The armed forces are certainly one of the props of *chavismo*. Alfredo Keller, a political consultant, reckons that more than 500 senior government jobs, including nine state governorships, are held by military officers. The other prop is an assortment of small far-left parties. There is constant friction between and within the two props, and no overall revolutionary command. “The novelty of *chavismo*”, says Alberto Garrido, a political analyst, “is that it

represents the underclass. This is the revolution of the excluded. But they are invertebrate. How do you organise them?" Not coincidentally, the iconic institution of the Bolivarian revolution is not a party but a television programme. Every Sunday, for four hours or so, Mr Chávez holds court in "*Aló Presidente*". It is the revolution as chat show, and it is a role for which he has no understudy.

Unlike General Velasco or Mr Castro, Mr Chávez took power in an election. That has given his regime an ambivalence which, says Mr Petkoff, the newspaper editor, is its trademark. "It has one foot in democracy, obliged by the democratic culture and tradition of the country...[But] the other foot is in authoritarianism and autocracy." Venezuelans must decide which foot they prefer to amputate.

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Biofuels

Stirrings in the corn fields

May 12th 2005
From The Economist print edition

SPL

Diesel fuel made from oilseeds, petrol replaced by ethanol made from corn, sugar or grain—or even straw. They're here and are starting to change energy markets

AMERICAN output of maize-based ethanol is rising by 30% a year. Brazil, long the world leader, is pushing ahead as fast as the sugar crop from which its ethanol is made will allow. China, though late to start, has already built the world's biggest ethanol plant, and plans another as big. Germany, the big producer of biodiesel, is raising output 40-50% a year. France aims to triple output of the two fuels together by 2007. Even in backward Britain a smallish biodiesel plant has just come on stream, and another as big as Europe's biggest is being built. And after long research a Canadian firm has plans for a full-scale ethanol plant that will replace today's grain or sugar feedstock with straw. Output is still tiny compared with that of mineral fuels. But the day of the biofuel has arrived.

The reason is simple. Forget greenery or energy security, the grounds on which governments justify subsidising biofuels. Just take the past year's soaring price of mineral fuels, subtract the biofuel subsidy, and the answer is plain: for the user, biofuels are currently cheaper. Indeed, in America's corn (maize) states, locally produced ethanol is close to being competitive even without subsidy; imported Brazilian ethanol could have been so long ago, had not a federal tax credit for ethanol, originally 54 cents per American gallon, been carefully balanced by a 54 cent tariff.

Though production methods are rapidly evolving, the new fuels are new only in their rampant growth. An engine that Rudolf Diesel showed at the 1900 World Exhibition in Paris ran on peanut oil, and biodiesel has been in small-scale use here and there since the 1930s. You can make it from animal fats, oilseeds, used cooking oil, sugar, grain and more. Indeed, you can feed your diesel vehicle with cooking oil from the supermarket and it will run,

until (as they will) the filters gunge up. As for ethanol, Henry Ford was an enthusiast for crop-based ethanol in the 1920s.

Modern uses were sparked by the oil shock of 1973. Brazil, rich in sugar-cane but not oil, led the way, building cars adapted to burn pure ethanol until the late 1980s, when sliding oil prices and rising sugar prices made sugar a more profitable end-use for the cane growers and the subsidy for ethanol too costly for the state. In 1989-90 ethanol pumps began to run dry, and sales of these cars collapsed.

Today, both biofuels tend to be used in mixtures. Europeans typically use “B5”—standard diesel, blended with 5% biodiesel, usually made from rape (canola) oil. In America, many drivers, often unaware of it, are using E10 “gasohol”—10% ethanol, 90% standard gasoline.

But the proportions can be higher than that. Some American and Canadian public-sector vehicles run on B20. Californians use unmixed, 100% biodiesel, and, with additives to keep it usable down to –20°C, it is sold even in such colder places as Germany and Austria. As for ethanol, in its pure form it can damage standard gaskets and hoses. But, to meet Brazil's supply problems, carmakers there, already familiar with the stuff, in 2003 brought in “flex-fuel” engines that can run on any ethanol-petrol blend you like; at present 75% to 25% is standard. These now win 30% of new car sales there. The American version of flex-fuel runs on E85 (in practice, 70-85% ethanol, depending on the region and the season). Already America has 4m such cars, and they are multiplying. So are E85 pumps for them. Indeed, the corn-state press delights in anecdotes of John Doe who habitually fills his ancient Chevy with E85 and avers that it suffers no harm.

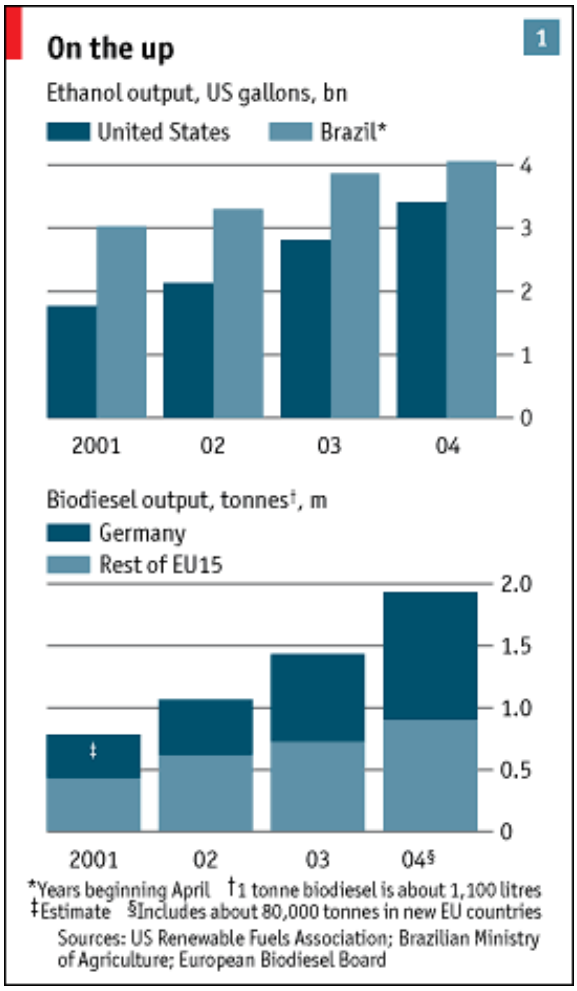
If he's right, he is no fool: E85 (though not E10) gives a bit less oomph per gallon than standard fuel, but even so he is saving money. Supply constraints may prevent E85 being the future of ethanol in America. But if the oil price stays high, Mr Doe and other penny-pinchers will certainly be using more biofuel.

The oil companies were originally far from happy to see “their” filling stations openly selling a rival fuel. They are still not eager. But pro-ethanol pressure has grown. America's environmentalists favour it (except the purists who object, truly enough, that the real “green” issue there is not the fuel but the cars that guzzle it). And the law, in some areas, is with them. Anti-smog rules require a clean-burn additive to petrol, and one formerly favoured, known as MTBE, turned out to have nasty properties, and is being phased out. Ethanol—as such, or used roughly half and half with another chemical in a compound known as ETBE—can do the job.

There is pressure too from the corn-growers, gleefully envisaging a huge new market; and hence from their politicians. The market is big already: of America's 255m tonnes of maize last year, 30m went into ethanol. One or two states have adopted mandatory requirements for a certain use of this fuel; Minnesota requires E10 as a minimum, and its legislature has just voted to make that E20. A federal bill launched in March, calls for the use of eight billion gallons of biofuels a year by 2012.

This and less ambitious bills are still merely bills, not law; and even eight billion gallons, though near double this year's likely American output, looks trivial beside total motor fuel use, which already exceeds 175 billion gallons. Yet if oil stays high that target may be exceeded, law or no law, greens or no greens, because drivers will demand ethanol.

Do the sums



The arithmetic is simple. Ethanol's federal tax credit is by now 51 cents per gallon (in European terms, 10.5 euro-cents per litre). So-called “small” producers, making up to 30m gallons a year, get an extra 10 cents. Several states add their own tax breaks, which can be worth 10-20 cents a gallon. Say, very crudely, 70 cents in all: 7 cents per gallon of E10, and nearly 60 cents for E85.

The subsidies in theory go mostly to the blender; how much in fact ends up with whom depends on the market, and is not simple at all. Witness some figures from filling stations in Minnesota—the E85 capital of America—in early May. The pump price of the E10 gasoline standard in that state varied little, from around $1.90 a gallon to $2.10. E85 prices varied more, from about $1.50 to $1.80. And the gap between the two varied wildly: 26 cents in Austin, 34 in Owatonna, 45 in Eagan and Shakopee, 50 in Redwood Falls, 58 in Alden.

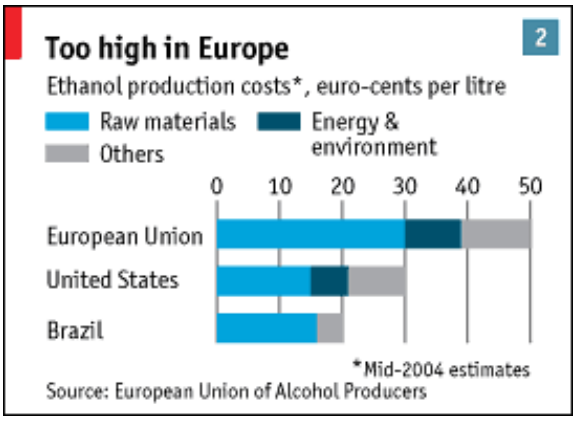
Say, typically, 35-45 cents and what the figures show is again simple, and conclusive: at today's prices, in that corn state, the wise driver buys subsidised E85 ethanol if he can; and it is only 10 cents or so from being cheaper than standard gasoline even were there no subsidies at all.

Other obstacles may be on the way out. Even now, a new flex-fuel car costs barely more than a standard one. There is little reason for any real differential, and as these cars gain popularity there may be none—as in Minnesota already. Guarantees have been a trouble: John Doe and his Chevy are past caring, but would you buy a brand-new car and risk invalidating its guarantee by using E85? But the car makers' attitudes are changing.

Guarantees are especially relevant to America's infant biodiesel industry. A heavy truck or combine harvester is a big investment to put at risk. But Case, a leading farm-equipment maker recently extended its guarantees to B5 (and at another, John Deere, machines leave the factory filled with B2). Volkswagen has just done likewise, as it and others did long ago in Europe, for its diesel-engined cars, a rare species in America, but now spreading.

American output of biodiesel is still trivial: last year 30m gallons, in a total on-road diesel consumption of 36 billion. A year ago, biodiesel cost about 20-30 cents a gallon more than petro-diesel. But in October a new law

gave it too a federal tax credit: one cent for every 1% of biodiesel in the mix. Oil prices are higher now. And new rules requiring diesel in 2006 to be all-but free of sulphur will help. Taking the sulphur out makes the fuel less slippery; adding biodiesel can make it more so.



The story has been much the same in Europe, though the leader there is biodiesel. In Germany, where more than half of all cars are diesel-engined, pure biodiesel, retailed as such, has long escaped fuel tax. In January 2004 blends up to B5 were legalised, and the exemption was extended, pro rata, to them. Per “biolitre”, it is now worth €0.47 (in American terms, $2.30 a gallon). Italy takes off 40 euro-cents, France 33 (though both governments set a quota for output), Spain and Britain 29.

The public hears little of these tax breaks: in Germany or in France—where pure biodiesel is not sold—the driver looking for “diesel” seldom knows, or cares, that he may be getting B5. And even in Germany the pure stuff is available at only one filling-station in ten, thanks to the hostility of the oil companies. But where it is, drivers are eager for it: it is 10-12 euro-cents a litre cheaper than plain diesel. Big users buy in bulk, to blend for themselves at whatever percentage they like. And demand from the oil companies, since blending was authorised, has given Germany's biodiesel producers a huge boost.

Go, diesel, go!

As in America, there is also political pressure, though the politics, so far, is more that of the green lobby than the farmers. The European Union, unlike the United States, has ratified the Kyoto treaty on emissions and the environment, and the EU authorities in 2003 issued indicative targets for translation into national law: 2% of motor-fuel consumption should be biofuel by 2005, and 5.75% by 2010.

Many of the 25 EU governments have thumbed their noses at Brussels. In February, the European Commission sent warnings to 19 for failing to put their targets into law; and later to nine for not even fixing targets. Even of those that have, many picked figures below the EU's hopes. The politics sounds like a typical EU non-event.

In fact, not so: EU governments dislike being tied down by Brussels, but few will mind tying down their own citizens, or at least cajoling them with tax breaks. And there is national pressure for that, from committed greens below and ministers eager to look green above. Even Britain's government this year extended its biodiesel subsidy to bioethanol too. France is to enlarge the quotas of biofuel output that qualify for subsidy.

Yet in the end it is the market—producers, intermediaries and consumers—that will decide. And there are already signs that, given the price signals (and the supply of raw materials) they may in time leave governments behind.

Really? In America and Europe alike, that today looks far from likely. And if oil prices slump, the signals will not come. Yet look at the response, already visible, to the leap in oil prices and the biofuel savings or profit opportunities it represents.

In America, by late 2005 ethanol capacity may hit 4.4 billion gallons a year, against 3.4 billion in 2004. There are 84 existing plants, 16 being built, and new

Reuters

projects galore. And while one big grain firm, ADM, used to dominate the ethanol industry, many are backed by local farmers, eager for a new outlet as corn prices have slid. In Missouri, 730 farmers put in $24m of $62m needed for a 50m-gallon plant—a size that reflects the cost of corn transport.

Pick your mix

State governments aid such plants. Missouri gives producers 20 cents a gallon for their first 12.5m gallons, 5 cents for the second. Besides $7m for an ethanol research centre, and freeing biofuels from state sales tax on biofuel, Illinois has put $4.8m into one project to help it raise other capital. North Dakota has done likewise. Predictably, though, enthusiasm is abruptly reversed if the fuel is not American-made (or even, in some cases, made from home-state corn). The import tariff apart, two bills came up in the Senate last year to block the small volume from Brazil that could avoid it by being partly processed in the Caribbean basin.

Sprouting plants

In Europe, Germany's biodiesel producers say output has trebled since 2002 to maybe 1.5m tonnes (about 1.7 billion litres, or 450m American gallons) this year, as new plants come on stream. The producers say that by now 4% of all diesel sold there is theirs—over 2% of all motor fuel already, even if ethanol were never to make its mark there (as it certainly will).

France's biggest diesel producer, Diester Industrie, already making 250,000 tonnes a year at Europe's biggest plant, near Rouen, plans to double another plant in the north to 200,000 tonnes, and build a 160,000 tonne one in central France. It is also in talks with Cargill, an American grain and oilseed giant, about yet another plant at west-coast Saint-Nazaire.

In Britain, though half of all motor fuel sold is diesel, biodiesel use has been tiny. But a new 50,000-tonne Scottish plant is due to be overtaken later this year by a 250,000-tonne monster on Teesside, near the east coast. And, with partners, Tesco, a supermarket giant that also runs filling stations, plans another east-coast plant. It will not be huge, but in Britain Tesco's name could give biofuels a huge boost.

So, in a different way, may the decision of Fortum Oil, part of Finland's Neste conglomerate, to build a 170,000-tonne biodiesel plant at its Porvoo refinery near Helsinki, which now makes 4m tonnes of conventional diesel. The oil companies' war with biofuels has already become a truce; now it may become an alliance. Not all their skills are transferable: coastal biofuel plants, like refineries, have an eye on bulk, seaborne inputs, but most of Europe's biodiesel is made from rapeseed (or rape oil) brought in by truck, not tanker or pipe. It is the economics of supply, more than distribution, that inspire the wide spread and relatively modest size of biofuels plants. But the oilmen are mighty.

Europe's coming ethanol boom in part reflects a different aspect of supply: its source. Italy has just cut the total of its biodiesel output eligible for tax relief, switching the money to ethanol. A greener fuel? No. But the rape or soya that go into biodiesel are not common crops in Italy; the grain, sugar or wine used for ethanol are.

Likewise, France's tax-aided biofuel push will be more ethanol-slanted than its far bigger biodiesel industry thinks fair. Lo, wheat and sugar beet, the main inputs for ethanol there, matter far more to French farmers than rape does. Three new German ethanol plants, due to make about 500,000 tonnes a year, mostly from rye, will eat near three times that weight of grain—3% of Germany's total harvest. No wonder the EU's offer to take a billion litres (near 800,000 tonnes) a year of Brazilian ethanol duty-free alarms EU farmers; they want imports limited, as in America, to a percentage of EU output. And as the EU cuts direct subsidies to farmers, their search to open, but then protect, new outlets will surely gain influence.

There may be good news for them (and, for once, for EU buyers of their products too). A firm from Spain, Abengoa, is the European leader in ethanol, with 260,000 tonnes of capacity there, and 160,000 more on the way. Big also in America, it hopes, using its experience there, to build the EU's first maize-based plant, in south-west France. But it may lead Europe in a far more significant direction than that.

The biofuellers make much of their green credentials. Critics claim their stuff takes more energy to make than it gives out; not so, say allies, citing advances in technology. But neither greenery nor energy-efficiency is the real issue. It is double-headed. First, can they compete, unsubsidised, with mineral oil? Not yet in biodiesel, says German experience. Nor in Europe's ethanol, says Abengoa's boss, Javier Salgado: oil would have to reach $70 a barrel. But in America, yes, at about $50 a barrel. So...

And another thing

Second, can they compete with each other? The big transatlantic difference is in raw material costs: about 30 euro-cents (39 American ones) a litre in the EU, half that figure in America or Brazil, lament the EU's ethanol-makers. The Brazilians gleefully agree. They expect to make some 16 billion litres of ethanol this year, about as much as America. And overall, they say, American ethanol costs 50% more to make than theirs, European ethanol 150%; their stuff, they claim, became competitive with petrol, at pre-tax prices, in 2002. By 2010 their state oil company, Petrobras, hopes to be exporting 8 billion litres a year.

So, in a free-market world, only Brazil and the traditional oil companies would be keeping transport moving? Not necessarily. Biofuel technology is rapidly advancing. Even in Europe, Abengoa reckons its ethanol could compete with mineral fuels within ten years. And a new technology, aided by some biotech, may both cut costs and ease raw-material constraints. Mr Salgado's firm, under an EU contract since 2003, has been studying how to make ethanol not from grain but straw.

It is not alone—nor indeed first. A Canadian firm, Iogen, backed with capital not just from the government (which freed ethanol from federal tax in 1992) and ex-state-owned Petro-Canada, but from Shell, opened a pilot plant for such “cellulosic” ethanol a year ago. It now plans a full-scale one in the Canadian prairies or Idaho. Another firm has begun studying a plant, proposed for British Columbia, using wood. America's Department of Energy heavily finances similar research, and enthusiasts there say that within 20 years the result could cost only 80 cents a gallon, well below today's gasoline cost. And in a study, “Growing Energy”, put out last December, serious dreamers claim that by 2050 cellulosic biofuels, mainly ethanol from switchgrass, a native American plant, could total nearly 120 billion gallons a year—over two-thirds of today's total motor-fuel needs.

That is blue-sky stuff, and none of this is sure to happen: if the oil price were to slump (or, as America's wind farms have shown, if subsidies yo-yo), much may develop much more slowly or never. But the old idea of biofuels as merely a green diversion from the real world can no longer hold. Fine, when oil was $20 a barrel; not even oil companies believe it now.

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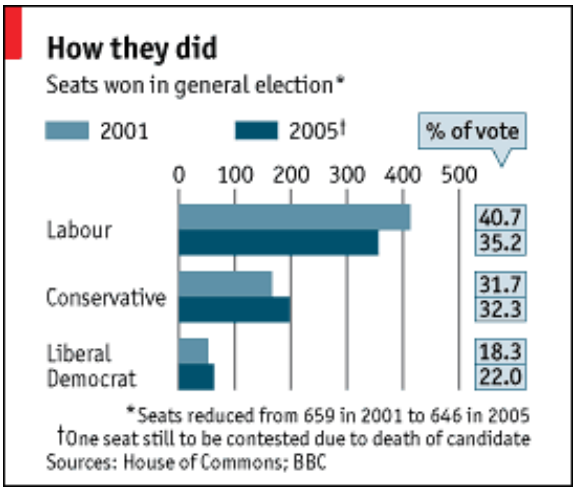
The election

The big divide widens

May 12th 2005
From The Economist print edition

Resentment in the south-east at high public spending in the north and west helps explain the election result



THE outcome of last week's general election was unusual, in that all three contenders feel they did badly. Although Labour is back for an unprecedented third term with a solid working majority, it lost 47 MPs and was returned with a mere 35.2% of the vote—the lowest share for a government since the Reform Act of 1832. Although the Tories gained seats—33 altogether—for the first time since the 1980s, along with a much-needed infusion of new talent, Michael Howard succeeded in increasing his party's share of the vote by less than one percentage point. The Tories' gains had more to do with Labour losing votes to the Liberal Democrats than with any positive appeal of their own.

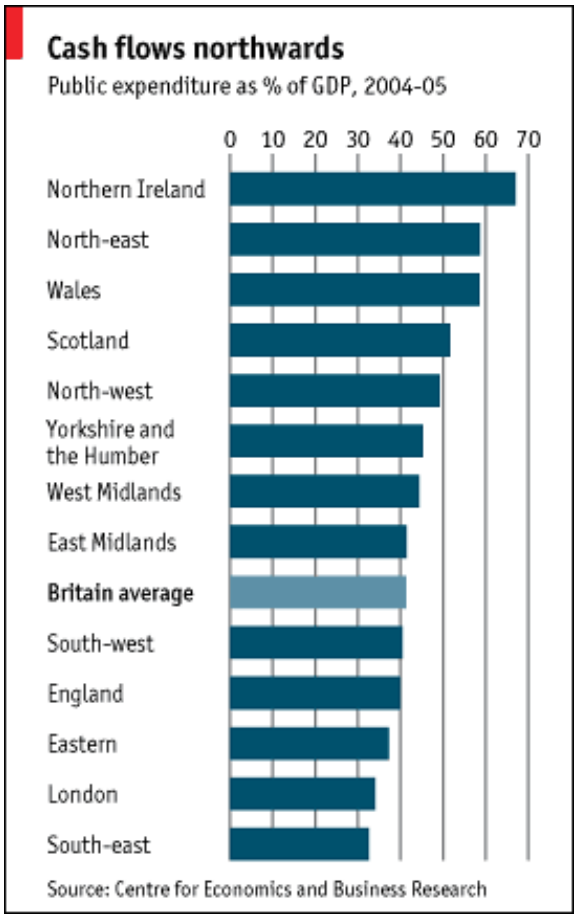
The Lib Dems now have the largest third-party representation in the House of Commons since the 1920s; yet they too are disappointed. As the main political beneficiaries of the Iraq war, the Lib Dems should have been the big winners, but they increased their share of the vote by only 3.7 percentage points.

The Lib Dems enjoyed much bigger swings in their favour in Labour-held seats where there were large student or Muslim populations that wanted to protest against the war, or university tuition fees, or both. But the potency of these issues will have faded by the time of the next election. At the same time, the Lib Dems' failure to make headway against the Tories in the dozen or so seats which they had come closest to winning in 2001 strongly suggested that they paid a price for the strategy adopted by their leader, Charles Kennedy, of presenting his party as the natural home of Labour malcontents.

A big factor behind shifts in voting patterns seems to have been contrasting attitudes to taxation and public spending in different regions. Labour's vote held up well, even increasing in some places, in parts of the country where the economy depends on high public spending; the Tories did better than even they were expecting in areas that pay a disproportionate whack of the tax bill, but get relatively little back from central government.

The Centre for Economics and Business Research recently produced an analysis of the way public funds are divvied up (see chart below). It shows the remarkable disparity in the extent to which different regions' economies depend on public spending, with figures ranging from around 60% of GDP in Labour's northern and Celtic strongholds at the top, to 33% in the increasingly Tory south-east. Although people living in the south-east and London tend to earn more than elsewhere, high housing and transport costs shrink their disposable income. They have been particularly hard hit by the government's refusal to raise tax thresholds in line with earnings and by high council-tax charges. In London, hospitals, schools and doctors' services are generally worse than in other parts of the country because the high cost of living makes it difficult to attract qualified staff.

Across the south-east and in the prosperous outer London boroughs, Labour suffered swings to the Tories two and three times greater than the average across the country of 3%. It lost some well-thought-of MPs, such as Stephen Twigg, who famously displaced the Tories' Michael Portillo in 1997, and is now clinging on in many of its remaining seats in the region with tiny majorities.



The Conservatives have the opposite problem to Labour. They did poorly in the Midlands and the north. Compared with 2001, the party's share of the vote fell in the three northern English regions. It now holds only 19 out of 162 seats in that part of the country. In future, to be returned with a majority of 50, they will need to win seats such as Middlesbrough South and Cleveland East, which has a Labour majority of 8,000 and is in a region in which public spending has risen in recent years to nearly 60% of GDP—about the same as in Hungary when it was emerging from communism in the early 1990s.

The Tories' task has now become even more difficult because of the redistribution of Liberal Democrat votes. In the south-east, the Lib Dems have repelled voters with promises of higher taxes, but in less affluent parts of the country they have relegated the Tories to third place. In 104 of the 356 seats held by Labour, the Lib Dems are now in second place. But that confronts the Lib Dems with a difficult choice as well. Should it build on its new status as a party well to the left of Labour on some issues or should it try to re-engage with the voters in the Tory-held seats that still represent its best chance of making future advances?

If there is a message from this election it is this: the coalition that Tony Blair built that brought together prosperous middle England and the party's traditional heartland is crumbling. But neither the Tories nor the Lib Dems seem to have any idea of how to replace it.

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Democracy

Weighing the votes

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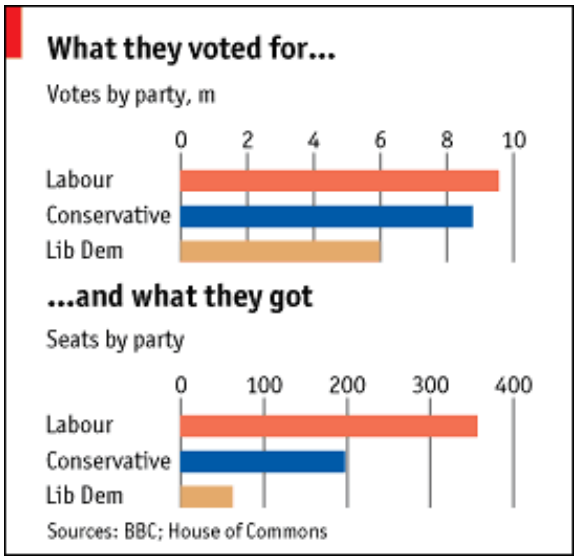
Why the electoral system favours Labour



IN THEORY, elections in Britain are beautifully simple. There are 646 seats, with boundaries set by a scrupulously independent commission. In each seat, whoever gets the most votes wins. The biggest party forms the government.

In practice, the system works like a complicated and very unfair board game. For a start (see chart), you can poll lots of votes and get far fewer seats. The big losers here are the Liberal Democrats, who won only 62 seats—just under a tenth—despite getting 22% of the vote.

Second, some votes count more than others. English constituencies have historically been bigger than those in Scotland and Wales. That hurts the Conservatives, who do better in England than elsewhere, and favours Labour.

Third, it matters hugely whose voters turn out where. Turnout was an average of 65% in Conservative-held seats, compared to around 58% in Labour seats, so a given number of votes delivers more Labour than Tory MPs. In Glasgow Central, for example, Labour won with 13,518 votes, with 44% bothering to vote. For the Tories, though, 21,744 votes piled up to elect their candidate in Louth and Horncastle, where turnout was 62%. Overall, it took Labour only 26,872 votes to elect an MP, the Conservatives 44,531 and the Lib Dems 96,485.

In England, where the Conservatives narrowly outpolled Labour, they still lagged 93 seats behind. That's dismal enough. But the truly awesome difficulty is in improving on it. Even new constituency boundaries based on data from 2001, rather than the current ones based on the 1991 electoral register, will continue to lag behind the big demographic shifts from inner cities to prosperous suburbs. Seats in Wales (where Labour is strong) will continue to be smaller than in the rest of the country, and the population there and in Scotland is likely to continue to shrink. That will continue to help Labour for years to come.

John Curtice of Strathclyde University says that on the new boundaries, assuming a uniform swing, the Tories will need a lead of eight to nine percentage points over Labour to gain a majority. That's a bit better than the mountainous 12 points they needed in this election, but still daunting. Tories resting their hopes on the increasing conservatism of an ageing population face a long wait.

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Northern Ireland's election

Exit: pursued by a bear

May 12th 2005
From The Economist print edition

More bad news for moderates

DAVID TRIMBLE'S expulsion from the front line of Northern Ireland politics in the general election leaves unionists without a leader who is respected in the world outside. Internationally, Mr Trimble is known as the recipient in 1998 of a Nobel Peace Prize, which he shared with the moderate nationalist John Hume. At home, though, his legacy is more ambiguous. A prickly loner who lacked political skills, his virtues were often more apparent from a distance.

Unionist critics say he helped opponents in his party by voicing reservations about the agreement he himself had reached with republicans and moderate nationalists. They also blame Mr Trimble's erratic style for the fact that the Democratic Unionists, led by the gruff Ian Paisley, a 79-year-old fundamentalist preacher, gained four seats and now have nine MPs, with a whopping 33% share of the vote.

Mr Trimble's admirers counter that their man, a choleric hardliner turned seeker of compromise, was undermined by the IRA. He took a big risk, they argue, six years ago to become First Minister in a Belfast assembly in which Sinn Fein, the IRA's political wing, also sat—in the belief that terrorist guns and bombs would soon be decommissioned. A huge bank robbery last December, the uncovering of a money-laundering machine and the cover-up after drunken IRAmen killed Robert McCartney, a Belfast Catholic, in a pub brawl, are only the most recent evidence of the IRA bad faith that did for him.

Mr Trimble's Ulster Unionists now have just one seat in Westminster. Mr Trimble lost his own Upper Bann seat to a Paisleyite relative newcomer and resigned as party leader next day. Tony Blair is expected to offer him a seat in the House of Lords soon. But this leaves the party casting around for a replacement, and from a lacklustre field. The sole remaining MP is Sylvia Hermon. Her marriage to Sir Jack Hermon, a former chief constable of the province, may be an asset, but Ulster Unionism is a macho world and Lady Hermon is a sweet-natured liberal.

On the other side of the divide, Sinn Fein escaped electoral punishment for the IRA's misdemeanours. The party retained its lead over the moderate SDLP but did not deliver a knockout blow. So nationalists will still have a choice in the next election. For unionists, though, there now seems only one viable party to cheer for.

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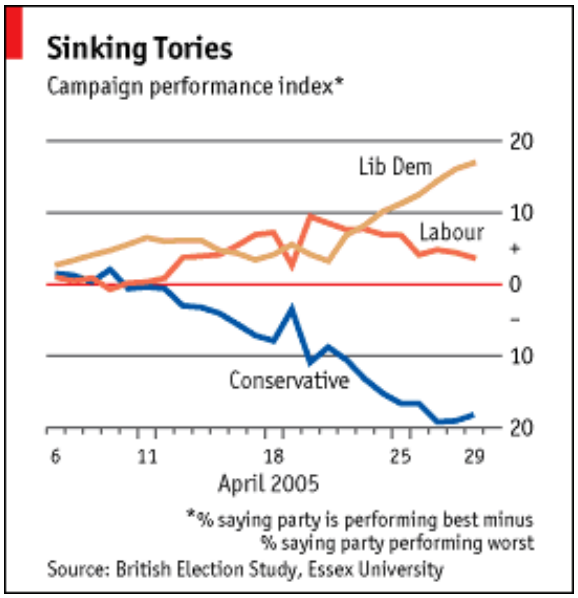
Immigration and politics

Race to the bottom

May 12th 2005
From The Economist print edition

The Tories' tough stance on immigration shifted few votes



THREE weeks ago, a potential voter in South Dorset, then the most marginal Labour seat in England, received a letter that was similar to many others being sent out to battleground regions. The letter explained that Labour's "chaotic asylum system" had cost Dorset more than £1m since 1997. No wonder local taxes had gone up, the letter went on, before concluding: "On 5th May you will face a clear choice: five more years of Mr Blair who won't put a limit on immigration, or a Conservative Government that will."

The voters of South Dorset duly made their choice, re-electing Labour's candidate with an increased majority. That presents a question to the Conservative Party as it tries to pick a path that will lead to electoral success in 2009 or 2010: did a campaign that focused so strongly on immigration do the party any good?

In some areas, the answer seems to be yes. Keith Darvill, Labour's candidate in Upminster, was narrowly defeated in 2001 but thrashed last week. He blames that on rumours, cleverly reinforced by Conservative politicians, that newly arrived foreigners were jumping the queue for council housing and other public services. Voters in other predominantly white parts of east London also kicked out Labour incumbents, leaving the eastern half of London encircled by blue.

But a tactic that worked in the south-east seems not to have appealed in areas where anti-immigrant sentiment

and racial anxieties are, if anything, even more pronounced. In the north, the Conservative Party lost votes; in the south-west, its share was virtually unchanged.

Why does the issue seem to have had more resonance in some places than in others? Shamit Saggar, a political scientist at Sussex university, believes that most voters have come to see immigration as a matter of government competence rather than policy. The question is not whether foreigners should be kept out but how well the system is managed. Immigration is widely believed to be out of control, but it is only one indicator of whether the government is on top of things. In the congested, over-taxed south-east, it confirms a general perception of incompetence; elsewhere, it does not.

For most people, the focus on immigration during the campaign appears to have been a turn-off (see chart). As for those who are really worked up about it, they may have listened rather too closely to Michael Howard, the Tory leader, when he argued that immigration is not an unqualified menace and should be controlled rather than abolished outright. As Peter Kellner, a pollster, explains, “The constituency that wants to be tough on immigration is much tougher than the Tories.”

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Doctors' salaries

Practice makes perfect

May 12th 2005
From The Economist print edition

Family doctors' salaries are rising sharply. Why?

FAMILY doctors' pay is shooting up. According to a survey by Mike Gilbert, who works for a medical accountants' association, their average annual income is now £90,000 ($170,000), nearly 90% of it from the state. That contrasts with the last official numbers, in 2002-03, which showed an annual figure of £61,000.

Why is this happening? Mostly because the government thinks it should. In the past, salaries of general practitioners (GPs) have been considerably lower than those of hospital doctors, who can supplement their income from the National Health Service with cash from lucrative private patients. General practice was therefore the least prestigious bit of the profession, which made it hard to recruit and retain doctors, especially in poorer parts of the country.

Even though numbers have been rising in recent years, the amount of doctoring they do has not gone up by quite as much because, as the proportion of women in the profession rises, so does the number of GPs who work part-time: only half of them work full-time, compared with nine-tenths of their male colleagues. The Royal College of General Practitioners, a professional body, reckons that another 7,000, or 20%, are needed in England alone by 2008.

Partly in order to increase the supply of GPs, the government introduced new contracts for them last year, which give big incentives to the shrewdest. The more services GPs provide and the more they meet government targets, such as managing appointments better, the more points they score and the more money they make. This year each point brings £75; next year it will be £120. As with most target regimes, this one creates perverse incentives: GPs' refusal to make appointments more than two days ahead, which tripped Tony Blair up during the election campaign, is the result of a target which rewards them for seeing patients within 48 hours.

Final figures on GPs' pay are not in yet, but there are signs that the new system may prove more costly than planned for the primary-care trusts that pay for general practice. Most practices were expected to gain around 700 points out of a possible 1,050. In fact, says Laurence Slavin, a medical accountant, the average score is 950. In a typical practice, that brings in around £18,000 extra to be divided between three or four partners. That is only one of several elements in the new contracts that whack up pay.

The price signals seem to be working. Lots more people want to be doctors. But the medical schools have created a bottleneck. They are hugely oversubscribed: on top courses up to eight applicants, all with perfect qualifications, compete for each place. Now new medical schools are opening. That should eventually help the supply of doctors to rise to meet the demand for them.

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Economic outlook

Clouding over

May 12th 2005
From The Economist print edition

Reuters

The gloomsters are wrong but the Bank looks too optimistic about growth

SINCE the election, there has been a spate of bad economic news. Manufacturing output plunged in March by 1.6% from its level in February. Retailers reported the worst trading conditions in April for at least ten years. This has prompted some loose talk about recession.

The fears are over-egged if the Bank of England is right about the outlook for the economy. It paints a broadly reassuring picture in its quarterly *Inflation Report* published on May 11th. The economy, it says, will grow at a bit above 2.5% a year over the next two years.

Indeed, compared with its report in February, the Bank offers some relief to hard-pressed industrialists and retailers. It takes about two years for a change in interest rates to have its full impact on inflation. Three months ago the Bank was forecasting that if interest rates stayed at 4.75%, consumer-price inflation would rise above the government's target of 2% by early 2007 (see chart). This suggested that rates were likely to have to rise again. In March and April, two members of the Bank's nine-strong committee that sets rates voted in favour of a rise to 5.0%.

Inflation recently rose from 1.6% in February to 1.9% in March, close to a seven-year high. The Bank now expects that inflation will rise above the target over the next few months. But, more important, it is forecasting that inflation will be just below 2% in two years' time. This implies that interest rates have peaked, which should help to boost business confidence.

The easing in the outlook for inflation two years ahead reflects the cumulative impact of a downward revision in expected GDP growth compared with February. Even so, the change is not a drastic one. The Bank has trimmed rather than sheared its growth forecast.

Is it being too optimistic? Presenting the report, Mervyn King, the Bank's governor, acknowledged that the risks to output growth were “slightly on the downside”. They stemmed, he said, from “possible weakness in activity abroad and consumer spending at home”.

A continuing consumer slowdown is the main threat. Household-consumption growth has powered the economic expansion of the past few years. That makes it all the more worrying that consumers now appear to have gone on strike. In the final three months of 2004, household consumption grew at a quarterly rate of only 0.2%. The slowdown appears to have persisted in the first three months of this year, when retail sales grew in real terms by just 0.3%. Gloomy reports for the retailing sector (see article) suggest that consumers continued to shun the shops in April.

The Bank thinks that this will turn out to be a temporary pause in consumption growth. It argues that employment and earnings growth appear to have picked up and that the housing market is stabilising. This should lead to a revival in consumer spending, even though it will grow somewhat more weakly than in recent years.

However, the Bank does accept that this benign scenario may not materialise. “It is also possible,” says the report, “that the deceleration in house prices and the cumulative impact on highly indebted households of past increases in interest rates may be associated with a more prolonged slowdown.”

Quite so. The downturn in the housing market has been abrupt. A year ago, house prices were soaring but now

they have stalled. Housing-market transactions in the first quarter of this year were 35% lower than in the first three months of 2004. This is likely to result in more downward pressure on house prices, argues Sabina Kalyan of Capital Economics, a consultancy. This suggests that it may be premature to talk about the housing market stabilising.

The economic prospects are by no means as bad as recent news has suggested. But it is too early to have much confidence that the economy will behave in as orderly a fashion over the years ahead as the Bank suggests.

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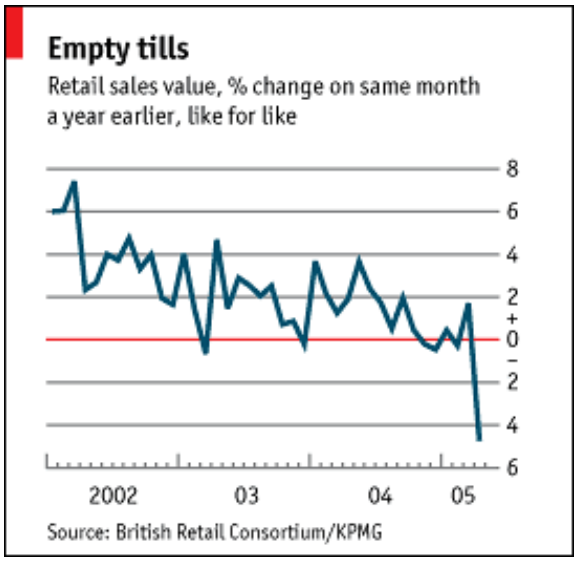
Retailing

Shopping stopping

May 12th 2005
From The Economist print edition

Things go from bad to worse in retailing



RETAILERS have had a bad few months. Last Christmas was the worst for ten years, and the gloom shows little sign of lifting. Figures from the British Retail Consortium (BRC), a trade body, show that sales fell by 4.7% in April (see chart), the biggest drop since 1995, when its records began (although this year was unusual in that Easter, a big shopping weekend, fell in March). Earlier in the month the Confederation of British Industry reported the worst fall in sales for almost 13 years. The markets are used to bad results from troubled companies such as Marks & Spencer and W.H. Smith. But now, even usually healthy firms like HMV, which sells CDs and books, and Next, which sells clothes, have been cutting their forecasts.

Sales are falling because shoppers are spending less. According to official figures, household spending rose by just 0.2% in the final quarter of 2004, the slowest for nearly two years. Analysts give several reasons: high interest rates, which make paying off household debt more expensive; a slowing housing market, which makes home-owners feel poorer; and a rise in fuel bills. Vicky Redwood, an analyst with Capital Economics, agrees that the housing market is the main reason for the spending slowdown, but thinks that rises in council tax and National Insurance rates have done more to impoverish shoppers than rising interest rates.

The news will not go down well on the high street. Competition in retailing is already fierce, says Tim Sleep, an analyst with Ernst & Young, thanks to streamlined supply chains, the impact of cheap, foreign-made goods and the continuing rise of internet retailing, which now accounts for around 5% of the market. As a result, prices are falling

by 1-2% a year. Kevin Hawkins, the BRC's director-general, says that costs are rising, too, thanks to inflation-busting increases in the minimum wage, intense competition for store sites and the same high fuel bills that have been troubling the shoppers. A fall in consumer spending will squeeze margins even more.

Still, some shops will do better than others. Observers had wondered whether the historic link between house prices and retail spending had been broken. A recent survey from Experian, a forecasting group, suggests that the link is as strong as ever. It showed that shops in the north of England, where house prices are still rising, were doing much better than their southern counterparts, where prices are flat.

The big supermarkets should also be relatively unscathed by the downturn: food sales usually hold up well even when consumers tighten their purse-strings. But that could make things even worse for the rest of the high street: many shops are already suffering as the supermarkets take advantage of their buying power to sell clothes and electrical goods cheaply.

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City-centre living

What goes up

May 12th 2005 | NOTTINGHAM
From The Economist print edition

How the urban dream turned into a property bubble

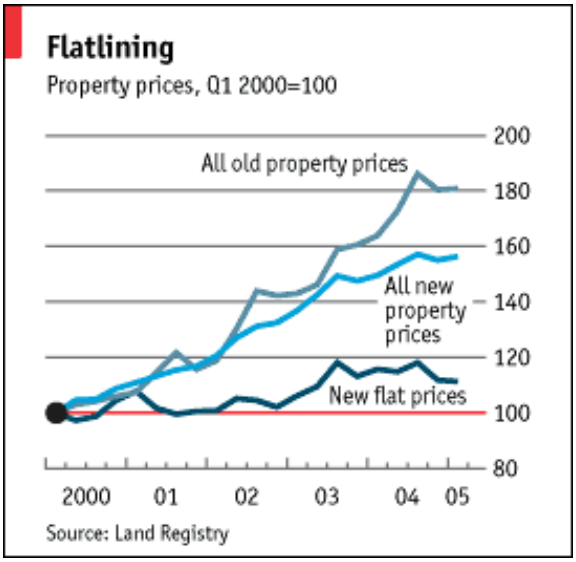
IT TOOK little more than five years to transform the centre of Nottingham from a derelict husk into a jaunty metropolis. Restaurants, cafés and pubs have sprouted on formerly deserted streets, while warehouses have been converted into plush flats. In the ultimate sign of urban renewal, new trams ply the roads. Such rapid development makes pessimism seem almost perverse. But Ken Grundy, a property developer, pauses between sips of wine at a two-year-old café to deliver a heretical forecast: “This is where the downturn will begin.”

Traditionally, the centres of most British cities were places of drudgery, not high living. That began to change in the mid-1990s. One reason, according to Tim Heath of Nottingham university, were American sitcoms depicting city-dwellers as wealthy, pretty and sociable. Another cause was a government forecast that 3.8m extra households would form between 1996 and 2021. Many would be small, consisting of childless young professionals, divorcees and the old. Clearly, if the countryside were not to be covered with concrete, they would have to be accommodated in the cities.

Property companies responded enthusiastically, helped by changes in the planning rules that encouraged high-density urban development. Flats accounted for 44% of all new residential building in Britain last year—up from just 16% in 1997. The transformation of Nottingham has been especially dramatic. In 1971, just 1,500 people were thought to be living in the city centre. By 1998 almost 4,000 were doing so, and the current population numbers between 10,000 and 12,000. This despite the fact that Nottingham has lost more than a tenth of its overall population in the course of the past three decades.

Lace Market Properties, which has created about 1,000 flats in Nottingham, can hardly build new ones quickly enough to meet the demand. But few are selling to the young professionals and divorcees who were expected to be clamouring for them. Instead, the boom has been sustained by property syndicates and investors, many of whom reside in Ireland and South Africa. They now buy more than seven out of every ten new properties—up from perhaps two in ten in the late 1990s, according to Tony Pinks, the company's sales director.

Investors reckon to make money from city-centre flats both by renting them at a good rate of return and selling them at a profit. Until recently, both were virtually guaranteed. But yields have fallen steeply in the past few years. David Hargreaves of FHP City Living, an estate agent, reckons that rents last peaked three years ago. Prices may soften next. While the value of most properties has soared over the past few years, prices of newly built flats have lagged, and now appear to be declining (see chart).



The problem, says Richard Donnell, head of residential research at Savills, is that so many properties have crowded into a niche market. Outside London, there is just not much demand for recessed lighting and glass bricks. But the rising expense of buying land and building on it (in Nottingham, construction costs per square foot have increased by two-thirds in the past six years) mean that piles of shoeboxes are still the developers' favourite. When released on to the rental market, the effect is like pouring water on to sodden ground.

Salvation, of a rather dubious kind, has come from students. Mr Hargreaves points out that dormitory costs for students have increased, which makes two-bedroom flats more appealing to the undergraduate children of the rich. That has underpinned the market. But a block that is filled with students is even less likely to increase in value—and, besides, it is not exactly the well-rounded urban community imagined a decade ago. Seeing ghettos of young renters and hearing the noise from all those pubs and restaurants, the middle-aged and the old seem to be staying put in their suburban retreats.

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Bagehot

Fingers on the button

May 12th 2005
From The Economist print edition

Mutually Assured Destruction has brought peace to the Labour Party

UNLIKE the Tories, Labour has never much gone in for getting rid of its leaders. Historically, dissidents have preferred to undermine them by making their lives miserable—a custom that helped to keep the party uncontaminated by office for most of the 20th century. But even traditionalists were shaking their heads in disbelief when, within hours of winning a comfortable majority for a third term, a gaggle of 20-30 malcontent Labour MPs started to campaign for Tony Blair's dismissal.

Thus when Mr Blair duly met his new and re-elected MPs behind closed doors on May 11th, expectations for a bruising encounter were high. In fact, the contest resembled the sort of fight that boxing promoters line up for ageing champions in need of a pay day. A few of Mr Blair's braver opponents made predictable protests. The rest stayed quiet. Although there is a much bigger number of MPs who wish Mr Blair would stop talking about serving a full term, most recognise that it is still largely up to him when he goes. Power and authority may be slipping from Mr Blair to Gordon Brown, but both men are locked in a stand-off which it is in neither's interest to break.

Throughout the last two parliaments, the relationship between the two men was reported as if it were some nightmarish zero-sum game. Each small but supposedly decisive shift in the balance of power between prime minister and chancellor was meticulously logged. The premise was simple: if one of them was up, the other had to be down. Mr Blair could reform the public services only if Mr Brown was weak. Mr Brown could become leader only by undermining Mr Blair. Now, thankfully, that set of scales can be discarded.

Consider Mr Blair's latest cabinet reshuffle. As usual, the prime minister made his key appointments with unnecessary haste. Rumours spread that obstructive ministers had thwarted his intentions. But Mr Blair likes to carry out reshuffles quickly and tries to avoid forcing his senior colleagues into jobs that they would rather not do. Speculation that some ministers were prepared to defy him, knowing that they could do so with impunity because he would soon be replaced by Mr Brown, is misleading. The reshuffle saw no wholesale promotion of Mr Brown's allies. And Mr Blair clearly did not feel too constrained by Mr Brown when he decided to put his trusted education adviser, Andrew Adonis, into the House of Lords as an education minister.

Mr Adonis once wrote a book called “Making Aristocracy Work”, so he ought to feel fairly comfortable in ermine. But much of the Labour Party is very uncomfortable with him. They dislike the influence he has exerted over the prime minister from an unelected post within Number 10. From this hideaway, they say, he has been responsible for university tuition fees, which 72 Labour MPs voted against, and upstart city academy schools. They also dislike his one-time affiliation to the SDP, a breakaway party which deserted Labour in its loony days in the early 1980s. But it is Mr Adonis's criticism of levelling-down in the education system (he once co-authored a book which said that the “the destruction of the grammar schools—in the name of equality of opportunity—only had the effect of reinforcing class divisions”), which is hardest for those Labour MPs who joined the party to tear down symbols of privilege to accept.

If Mr Blair had made this appointment in either of the last two parliaments, it is a safe bet that Mr Brown would have let it be known that he was unhappy about the promotion of such a controversial figure. The impression that Mr Brown thought that Mr Blair was going too far would have been carefully nurtured. The signal to MPs uneasy about the prime minister's reforming zeal would have been that under Mr Brown, such things would not happen. This time, there has been none of this stuff. What has changed?

MAD but happy

During the election campaign, Mr Blair and Mr Brown buried their differences sufficiently to work together effectively. But what binds them together now is the political equivalent of Mutually Assured Destruction. If he took it into his head to do so, Mr Brown could mount a successful strike against Mr Blair's leadership. But the blast and the fallout would do so much damage to the government and the party that Mr Brown would find himself sitting on top of a smoking ruin. Likewise, were Mr Blair ever tempted to launch a pre-emptive attack against Mr Brown by demoting him from his status as heir apparent, the response would be swift and lethal.

None of which means that the new parliament will be an easy place for Mr Blair to get his way. Figures on backbench rebellions in the last parliament compiled by Philip Cowley of Nottingham university show that 60 Labour MPs who voted against the government 10 times or more have been re-elected. Party managers hope many of those will be more obedient now that Labour's majority is down to 67. That may be so, but there is still a group of 31 MPs who rebelled 20 times or more in the last parliament and who will be harder to strong-arm into obedience. They include Clare Short, a former minister who has come up with the novel doctrine that as she did not write the manifesto herself she does not feel bound by its contents. And, ominously for the party leadership, the willingness of the press to give MPs who think like Ms Short a hearing has increased since Mr Blair's re-election.

Such parliamentary ne'er-do-wells are irritants rather than threats to Mr Blair's grip on power. A bigger, more unmanageable threat may come from outside Westminster. If—dread prospect—France's voters decide to approve the European Constitution on May 29th, Mr Blair will be faced with the task of winning over bolshy British voters to an unpopular cause. That is more likely to do him in than backbench sniping.

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Turkey and the European Union

Mountains still to climb

May 12th 2005 | ANKARA, DIYARBAKIR AND ISTANBUL
From The Economist print edition

There remain formidable obstacles to Turkish membership of the European Union, not least in Turkey itself

Get article background

THE Turkish prime minister, Recep Tayyip Erdogan, is cross with critics who attack his government for doing too little to prepare for accession talks with the European Union, due to start on October 3rd. These critics claim that, whereas big reforms were introduced in the months leading up to December 17th, when Mr Erdogan secured the precious October date at an EU summit, nothing has been done since. Some even point to an upsurge in Turkish nationalism as a sign of a backlash against the idea of joining the EU.

In a recent interview with *The Economist*, Mr Erdogan dismissed such criticism as unfair. He talked darkly of a "campaign against us". He said his government would do "whatever is required of us, take whatever steps are necessary", insisting that "we are fully committed to the EU process." He conceded that a big test would be implementing the reforms, as this requires "a change of mentality". As for critics' gripes that he has failed to appoint a top EU point man, he claimed that there was no rush, as he himself would be in overall charge of the negotiations.

So all is set fair for October 3rd? Not quite. Formally, Turkey must fulfil two more conditions. The first is to bring

into force its new penal code, which should happen in June. The second is to sign the protocol extending the EU-Turkey customs union to the ten new EU members that joined last year—including Cyprus. This Turkey is now ready to do, despite fretting that it may imply some recognition of the Greek-Cypriot government.

Yet other problems are sure to appear. The December summit almost foundered over the precise wording on Cyprus. Everybody is aware that Croatia lost its promised date of March 17th for the start of membership talks, because the EU decided it was not complying with The Hague war-crimes tribunal. They also know that Cyprus will haunt negotiations with Turkey far beyond October. As the Greek-Cypriot president, Tassos Papadopoulos, gleefully noted in December, he will have many opportunities to veto Turkish entry: the negotiations could last for ten years or more.

Two more immediate problems are the French and Dutch votes on the EU constitution in two weeks' time. Mr Erdogan protests that Turkey should not have been dragged into the debate on the constitution, since the two issues are quite unconnected. But the fact is that, in both countries, Turkey's putative membership has been a significant weapon for the no campaigns. The leaders of France and the Netherlands favour opening talks with Turkey. But if either country votes no, their governments will come under pressure at least to postpone, and possibly to call off, the negotiations with Turkey.

The odds still favour the opening of talks, if only for fear of the fallout from not opening them. No country that has begun negotiations with the EU has not been offered membership. Yet the obstacles to Turkey will remain huge even after talks begin—and they go well beyond Cyprus.

Public opinion within the EU is mostly hostile, for a start. France's president, Jacques Chirac, has promised to consult French voters in a referendum before admitting Turkey, and other countries may follow suit. In Germany, the opposition Christian Democrats are against full membership for Turkey, although they will not block talks once they have begun. The new (German) pope is on record against Turkish entry—though, as Mr Erdogan sardonically observes, the Vatican is not an EU member. That his AK party is in the Christian Democrats' umbrella group, the European People's Party, seemingly counts for little.

Yet, as one EU diplomat in Ankara says, the biggest obstacle to Turkish membership is not the EU: it is Turkey. In part, this is a question of understanding. The Turks see EU accession as a matter of genuine negotiation: if they make concessions, they expect concessions in return (eg, on northern Cyprus, see article). In reality, the talks are just about assuming the obligations of the EU's *acquis communautaire*. These include not just boring single-market measures but such broader concerns as human rights, the treatment of minorities and religious and democratic freedoms.

Mr Erdogan insists that none of these is any longer a problem for Turkey. His reforms over the past year included scrapping state security courts, cementing civilian control of the army, allowing Kurdish-language teaching and broadcasting, and shaking up the police and judiciary. Yet negative incidents happen too often: Christian churches are harassed, the Greek Orthodox seminary near Istanbul remains closed, a new military crackdown has begun against Kurdish PKK terrorists (and civilians) in the south-east. The prime minister talks of “provocations”, a word he uses to describe a women's protest in early March that was broken up violently by police in front of the television cameras.

As for rulings against Turkey by the European Court of Human Rights, he says the government disputes most of them. This week the ECHR ruled that the 1999 trial of the PKK leader, Abdullah Ocalan, was “unfair”. Mr Erdogan says that he cannot interfere in Turkey's independent courts. In response to broader concerns of human-rights groups for Kurds, he wonders where they were when he was jailed in 1999 for reading an Islamist nationalist poem in public, before they rushed to Diyarbakir to back local mayors.

Turkey has clearly improved in its observance of human rights and its treatment of Kurds and other minorities, but it still has a lot more to do to match European standards. This makes a recent speech by General Hilmi Ozkok, the army's chief of staff, interesting and, in some respects, troubling. The general observed that Turkey had a security interest in northern Cyprus, that allegations of genocide against Armenians in 1915 had no basis and that the Americans were not doing enough to stamp out PKK terrorists in northern Iraq. He also stressed that secularism was the driving force of Turkey's democracy, and that the Turkish state must remain an indivisible whole.

It might seem odd that a general should say any of these things publicly now, but in Turkey the army still plays a

key role in upholding Ataturk's secular legacy. In effect, the generals have embraced the country's EU aspirations, but only on the basis that EU membership will support and not undermine that legacy. Yet a strand of Turkish opinion clearly frets that support for religious and minority freedoms may conflict with Ataturkism; and that acceptance of more autonomy for Kurds may threaten Turkey's territorial integrity.

General Ozkok's conclusion was that saying yes or no must be a right not only for the EU, but also for Turkey. It would be an irony if, after working so hard to overcome European hostility to their joining the club, the Turks themselves came to decide that the rules were too onerous—but it is not impossible to imagine.

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Divided Cyprus

Leaps of doubt

May 12th 2005 | NICOSIA
From The Economist print edition

The divided island keeps foiling outside efforts to bring peaceful reunification

A BIZARRE cultural event, involving artists from both the island's communities (and other countries), is taking place this month on the “green line” that bisects Cyprus. On a Turkish-Cypriot soccer field, nets have been replaced by barbed wire; nearby a tower of speakers blasts out rock music. Entitled “Leaps of Faith”, the show is meant to make people think more broadly about an island whose Greek-Turkish stand-off is sometimes an excuse to dodge other issues, from immigrants' welfare to the role of women.

“Unresolved ethnic conflict is used by people who want to make society more traditional and authoritarian,” says Yannis Papadakis, a social anthropologist who has made a study of the “dead zone”, or no man's land, that cuts through Nicosia.

Sadly, the show's optimistic title is still not reflected in the island's general mood. It is two years since the Turkish-Cypriots who run the north first allowed free movement across the green line; and one year since a United Nations plan to reunify the island as a loose federation was accepted by Turkish-Cypriot voters but overwhelmingly rejected by Greek-Cypriots. Politically, a final reconciliation still looks as remote as ever. There is no let-up in the game of “pass the diplomatic parcel”, which the island's politicians have played for 30 years, to the exasperation of outsiders. The only change is that, since the Greek-Cypriot government joined the EU last May, the game is followed as keenly in Brussels as in New York.

At least as surreal as any art show is the continuing squabble over an aid package of €259m ($333m) that the EU promised the Turkish-Cypriots, partly to reward their vote in favour of the UN plan. The Greek-Cypriots insist that they want their neighbours to get the money. But the Turkish-Cypriots won't take the cash unless they win a bigger prize along with it: the opening to EU traffic of ports and airports in the north. To this the Greek-Cypriots say no.

This week Tassos Papadopoulos, the Greek-Cypriot president, seemed uncomfortable when he was reported, both by Turkey and the UN, to have shown openness to fresh peace moves during discussions in the margins of the Victory Day celebrations in Moscow. Mr Papadopoulos insisted that nothing more than talks about talks was in the offing. “Let's not rush to greet the resumption of a new initiative. There is still a long road ahead of us before the new dialogue is sufficiently prepared.” By stressing the need for “careful” groundwork, and ruling out timetables or arbitration, he has secured enough leeway to avoid being bounced into another UN procedure. But whether he wants it or not, an initiative is grinding into action. A Greek-Cypriot envoy is heading for New York next week, and Sir Kieran Prendergast, a senior UN official, will probably visit the island later this month.

If the Greek-Cypriot government feels that it can afford to soft-pedal on UN peace moves, that is mainly because membership of the EU offers it a set of diplomatic aces whose value is only now emerging. For example, some of the 180,000 Greek-Cypriots who fled south in 1974 are now seeking European arrest warrants for developers who

build houses on their old land. A Greek-Cypriot court has told a British couple to demolish one such home; the landowner threatens legal action in Britain if the pair fail to comply.

Meanwhile, the Greek-Cypriots are pressing the EU to send a tough message to Ankara ahead of October, when talks on Turkey's entry into the EU are due to start. In the short term, such lobbying may achieve some tactical success. Indeed some Greek-Cypriots hope their EU membership may lead to a solution more favourable than the bizonal, bicommunal federation that they reluctantly accepted, as the basis for further talks, in 1977.

Such gamesmanship is already receiving discreet encouragement in parts of Europe (eg, France and Austria) where a dust-up between Turkey and the EU would be welcome. But as James Ker-Lindsay of Civilitas, a think-tank in Nicosia, also points out, in the longer term no state has more to lose from a bout of Turkish disenchantment with the EU than Cyprus.

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Kaliningrad

Of Kant and cant

May 12th 2005 | KALININGRAD
From The Economist print edition

The uses and future of a million Russians stranded in Europe

FOR all the testy rows over the Soviet Union's post-war record, especially in the Baltics, Russia and the European Union managed to shake hands on a deal at their summit in Moscow this week. But to see if airy diplomatese ever translates into real co-operation, consider Kaliningrad, an isolated exclave of Russia on the Baltic Sea.

Of its 950,000 residents, just under half live in the city of Kaliningrad—east Prussia's Königsberg until Stalin annexed it 60 years ago. Since last year, they have been surrounded by the EU, in the form of Poland and Lithuania. But what might be a showcase for co-operation has often been rancorous, not productive. The issue of transit across Lithuania, of people and goods, was in theory solved last year. But Russia still has gripes. The EU retorts that the Russians inflate details into political rows, using poor Kaliningraders to exert pressure over other issues.

Russia's main aim seems to be to hang on. The bits of Königsberg not bombed in the war were mostly destroyed by the Russians, and the remaining Germans deported. Besides a restored cathedral, not much of the old town is left. Almost nobody disputes Russia's claim to the city and the flat, depressing patch of land around it. But the Russians like asserting their ownership. Celebrations of the city's 750th anniversary in July will stress Russia's thin historical influence (Immanuel Kant, Kaliningrad's most famous son, will also be feted, perhaps because he lived through a brief period of Russian rule).

For now, Kaliningrad is safe. Such exclaves can be more attached to their motherlands than loved in return: think of loyal Ulster Protestants. Even if Kaliningraders visit the EU more often than Moscow or St Petersburg, most tell pollsters that they feel Russian. Those feelings may be tested when they see how their EU neighbours live. Like the rest of Russia, only more so (because of smuggling), Kaliningrad's economy is hard to measure. But even if it is not doing badly compared with the Russian average, Lithuanians and Poles are doing much better.

The federal and regional governments have tried various wheezes, such as duty-free imports and preferential taxes, to close the gap. The latest plan is to have profit and property-tax discounts for big investors. The region has a fair-sized car plant, a fishing industry and most of the world's amber. It is also home to Russia's antiquated Baltic fleet (in the Soviet years it was a closed military outpost).

Unfortunately, says Georgy Dykhanov, a consultant, the new scheme is an example of mistaken Soviet-style giganticism. Pointing out that the region's tax burden is low compared with its neighbours, Mr Dykhanov says that what is really needed is more support for small enterprise. Land and power are scarce, and opportunities for corruption plentiful. What Kaliningrad most wants is closer integration with the Baltic states. One idea might be to make it a sort of overseas territory. Sergei Pasko, a local businessman, sees it as an autonomous republic within Russia, and an associate member of the EU. But, like the rest of Russia, Kaliningrad will lose local power when Mr Putin appoints its governor under a law passed last year.

The EU worries that a mooted visa-free deal with Kaliningrad would be exploited by other Russians. This week's summit made clear that visa-free entry for all Russians remains far off. The Kremlin may want Kaliningrad not to be too different from its neighbours, but it also wants it not to be too different from other Russian regions. The fear is that, if one slipped out of Moscow's orbit, others might follow.

Moscow's problems with Kaliningrad are in some ways peculiar to the local geography. But they also encapsulate the difficulties of holding together an enormous federal country, many of whose parts are farther away from the centre ethnically, culturally and even physically than Kaliningrad. As elsewhere, the Kremlin's neurotic grasping for control over Russia's regions may ultimately produce the opposite effect of what it intends.

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Victory in Europe, 60 years on

Marching through Georgia

May 12th 2005 | MOSCOW
From The Economist print edition

Reuters

Mixed messages from Moscow and Tbilisi

PERCHED in front of a tactfully disguised Lenin mausoleum in Moscow's Red Square, Russia's Vladimir Putin, America's George Bush and dozens of other world leaders—plus Britain's John Prescott—watched a parade on May 9th to mark the 60th anniversary of victory in Europe. Sergei Ivanov, Russia's defence minister, imitated Marshal Zhukov, in an open-top car rather than on a white horse. After applauding veterans and modern-day soldiers, some in old Soviet uniforms and carrying Soviet flags, the leaders laid flowers at the tomb of unknown soldiers outside the Kremlin. Despite making sharply different remarks about the Soviet occupation of the Baltic states, the American and Russian presidents seemed to get on well, especially when Mr Putin helped Mr Bush to drive his 1956 classic Volga car.

Mr Bush went on to Georgia, becoming the first American president to visit a place he called “a beacon of liberty for this region and the world”. Mikhail Saakashvili, Georgia's president, boycotted the Moscow parade after a row over the timetable for Russia's withdrawal of troops from Georgia. “I'm sure that Russia will recognise the benefits of having democracies on her borders,” Mr Bush declared optimistically. He also learnt Georgian folk-dancing and dined with Mr Saakashvili at a Georgian restaurant. “I'm really full,” was said to be the American president's commendation.

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Illegal immigration in Spain

Let them stay

May 12th 2005 | MADRID
From The Economist print edition

But Spanish tolerance worries the neighbours

AP

Many more where he came from

"THE scheme has been a great success,'' declared Spain's labour minister, Jesus Caldera, last weekend. He was marking the end of the Socialist government's three-month amnesty, under which 700,000 illegal immigrants will be given work and residency permits. Unlike north European countries, which have been tightening up on immigration, Spain has taken a brave step. Yet the risk is that the amnesty will encourage more illegal immigrants —who may go beyond Spain.

The scheme was simple enough. Annually renewable residence and work permits were granted to anybody able to prove he had lived in Spain since last August, and had a six-month work contract. Ecuadoreans made up 21% of the applicants, followed by Romanians, Moroccans and Colombians. Another 400,000 residence permits may be given to relatives.

Mr Caldera forecasts that 90% of Spain's underground economy will now come to the surface. The numbers of registered workers will increase, boosting social-security payments. Health and education can be better planned, a step towards integrating the new residents. Mr Caldera insists there will be no more amnesties; he also pledges to crack down on black-market labour and to expel illegal immigrants.

The Spanish amnesty has not been popular in other EU countries. German and Dutch officials have called for an early-warning system under which EU members would inform each other of immigration initiatives. The French interior minister, Dominique de Villepin, has dismissed the notion of amnesties. The Spanish media made much of immigrants trying to enter from France. Several hundred Pakistanis living illegally in France have been thrown back there. "Spain is considered an easy ride," says Ana Pastor, the opposition People's Party (PP) spokesman. The newspaper *El Mundo* writes of "avalanches of migrants, who could bring with them problems of crime and integration.''

The National Statistics Institute produced figures last month showing that Spain has now overtaken France as a favoured destination for immigrants. The numbers have quadrupled to 3.7m a year. The amnesty is unlikely to stem the flow: the stretch of water that separates Morocco from Spain represents one of the widest income differentials in the world.

Only this week the Spanish police intercepted five vessels carrying dozens of Africans from the Moroccan coast to the Canary Islands. Last year the authorities stopped 740 craft carrying 15,675 illegal immigrants in the Straits of

Gibraltar and the waters round the Canaries. Spain has declared six amnesties in 15 years, several of them under the previous PP government. A recent academic study called for a long-term policy, because the amnesties were “a call to others to make the journey”.

Rickard Sandell, a migration expert at Madrid's Elcano Royal Institute, says it is too early to analyse the effect of the latest amnesty. He says that earlier amnesties have not in fact led to significant bumps in the secular upward trend in immigration. And he suggests that “in principle, the retroactive date [of August 8th] should eliminate suspicions” that an amnesty simply attracts more immigrants.

The amnesty has come at a time when the EU is considering a single policy for immigration. Mr Sandell dismisses the very notion, saying that “Spain has to put in place mechanisms to produce regular foreign labour appropriate to Spain's needs.” It might help if the EU did more to foster the economies of its north African neighbours, but the “Barcelona process”, which was meant to do that, is largely moribund. Maybe it could be revived to mark its tenth anniversary this year.

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France and Britain

Tony le Magnifique

May 12th 2005 | PARIS
From The Economist print edition

How the French learnt briefly to admire the British prime minister

THE standard French critique of Tony Blair has it that he is George Bush's poodle and an *ultra-libéral* who runs a Dickensian country where the economy may boom but state schools crumble and hospitals stink. Strange, then, to witness an outpouring of admiration for Mr Blair during the recent British election. “Tony le Magnifique” ran a headline in *L'Express*. A leftish weekly, *Le Nouvel Observateur*, devoted eight pages to “Why the English are better than us”. “The British ‘miracle’ should be a model for us”, chimed in *Le Figaro*, a daily. Even President Jacques Chirac, who recently dismissed the British economic model as “unacceptable”, cooed, in a letter to Mr Blair, about “the closeness that has grown between us over the years”.

Why the sudden change? Mr Blair is younger and more dynamic than France's president, who celebrated ten years in the Elysée last week, and 40 years in elected office in March. Even British-style Euroscepticism is newly popular in France, ahead of its referendum on the EU constitution on May 29th. But the biggest explanation is low British unemployment of 4.8%, less than half the French rate of 10.2%. French commentators used to dismiss low British unemployment as a statistical manipulation, or a product of an ill-paid McJobs culture. But now some wonder if it reflects genuine policy choices. There is admiring talk about efficient British job-centres. Nor is it only low unemployment that draws envy. The French feel the pinch in their pockets, while British average earnings are steadily growing.

The British seem also to have made peace with the forces of globalisation and de-industrialisation that continue to haunt the French. Thus, while France's political leaders tear their hair out trying to rescue ailing industries, British voters can coolly re-elect a government that allowed the only carmaker still in British ownership to close, and in the middle of an election campaign to boot. “If you lose your job,” says an apparently startled *Le Nouvel Observateur*, “the economy guarantees you another.”

Will the seduction last? Unlikely: the French envy the outcome of British labour-market policy more than its flexible nature. Most are reluctant to surrender the job protection that hinders job creation. When Mr Blair takes over the EU presidency in July, he will embody more than ever the *ultra-libéral* economic model that has provoked so much recent French hostility to Brussels. In short, it is a matter of time before Tony le Magnifique resumes his traditional role as Tony le Manichéen.

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Charlemagne

Euro visions

May 12th 2005
From The Economist print edition

Where the Eurovision song contest goes, Europe tends to follow

WHICH cultural achievement best captures the spirit of Europe: the “Mona Lisa”, the “Moonlight sonata”, “Hamlet”—or “Diggi-Loo, Diggi-Ley”? No contest. In modern Europe it has to be the Swedish ditty that won the Eurovision song contest in 1984, whose cheery inanity captures the spirit of the annual pan-European event. Every year millions of Europeans tune in to Eurovision. This year's contest will be held in Kiev, Ukraine's capital, on May 21st. For those seeking evidence that Europe is more than a geographical expression, Eurovision is a rare example of a cultural event that engages the interests of people across the continent. T.R. Reid, a former London correspondent for the *Washington Post*, argues that the contest “is playing an historic role. Eurovision has become a celebration of Europeanness that strengthens the growing sense among 500m people that they all belong to a single place on the world map.”

So what does the contest tell us about Europeanness? First, that Europeans, for all their sophisticated self-image, cannot resist costumes that involve sequins, lamé and plunging necklines. Second, that nursery babble is the preferred pan-European language: the 1984 Swedish entry was in the fine tradition of an earlier British winner, “Boom-Bang-a-Bang”, and a Dutch one, “Ding Dinge Dong”. But nonsense is now giving way to English, which dismays those who want Europe to remain a bastion of linguistic diversity. Georgios Karatzaferis, a Greek member of the European Parliament, has asked the European Commission to take action against the “bastardisation” of the contest, and the triumph of “bad music and American words”, by forcing contestants to sing in their national languages. This was the rule between 1977 and 1999; since then, all contestants have been free to choose any language. This year's favourite is Helena Paparizou, a Greek compatriot of Mr Karatzaferis, who will be singing “My number one” in English.

Americans may appreciate the fact that Eurovision is often in their language, but find other features baffling, if not repulsive. Cultural conservatives would be struck by evidence of European moral degeneracy. In 1998 Eurovision was won by Dana International, an Israeli transsexual; in 2003, the most talked-about act featured a couple of Russian teenage girls whose performance involved fondling each other suggestively to a techno-beat. Janet Jackson's errant nipple seems tame by comparison.

But the biggest single lesson of Eurovision is that Europe's centre of gravity is moving east. The contest is being held in Ukraine this year because a Ukrainian won in 2004. Over the previous three years, the winners were Turkey, Latvia and Estonia.

The parallels with the European Union are obvious. The Eurovision song contest was the brainchild of Marcel Baison, a French music producer, who was an admirer of Jean Monnet. It got going in 1956 with a mere seven contestants; the Monnet-inspired European Economic Community was formed a year later with six countries. In both cases, membership was initially restricted to western Europe. Over time Eurovision and the European Union have both grown in popularity and membership. The EU now has 25 members; this year Eurovision has 39

contestants. Eurovision has expanded faster because it is easier to compose a mindless ditty and don a lamé costume than to pass the 80,000 pages of law needed to join the EU. But the new Eurovision entrants hope—and many old Europeans fear—that where Eurovision goes, the EU will one day follow.

New entrants to Eurovision, rather like new entrants to the EU, also embrace the contest with a naive enthusiasm. By contrast, as the song contest and the EU have both grown in size, the older members have become increasingly jaded. When Estonia won the song contest in 2001, the country's politicians, who were enmeshed in negotiating the finishing touches to their EU entry terms, seized upon the victory's symbolic significance. As the Estonian prime minister expressed it at the time, “we are no longer knocking at Europe's door. We are walking through it singing.” The Ukrainians, who are eager to follow Estonia into the EU, are sure to use their staging of Eurovision next weekend to underline their membership of a wider European family. In honour of the occasion, they have even dropped all visa requirements for EU nationals.

The Eurovision sceptics

While the new participants enthuse, older members of the family are getting distinctly cynical about the whole Eurovision thing. British television commentary is doused in irony and often draws attention to the way in which neighbours tend to vote for one another: the Greeks and Cypriots can always be relied upon to give each other high scores, and there is plenty of Baltic and Nordic solidarity. This goes to confirm the ingrained British prejudice that the odds in Europe will always be unfairly stacked against them. Indeed in Britain, the whole event is now regarded as a high-camp joke. A British contestant who scores the fabled *nul points* is likely to get far more attention than one who achieves respectable mediocrity.

Other western European countries also take Eurovision less seriously. The Irish, serial winners in the 1990s, now feign indifference. Denis Staunton of the *Irish Times* wrote in 2002 that trying to win the contest “seemed to jar with our new, nonchalant, national self-image.” The Italians, who gave Eurovision one of its few memorable songs in 1958 (later released as “Volare”), no longer bother to enter. As for the French, who won three of the first seven Eurovisions, they have not had a winner since 1977. The French referendum on the EU constitution takes place eight days after this year's contest. At a time when France agonises over its declining influence in the new, enlarged EU, it might be politic to let it win the new, enlarged Eurovision. And certainly to avoid a winner like “Waterloo”, Eurovision's all-time favourite, with which ABBA took the prize for Sweden in 1974.

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The Los Angeles mayoral race

Bossing the Big Tortilla

May 12th 2005 | LOS ANGELES
From The Economist print edition

In his bid to become LA's first Latino mayor for over a century, Antonio Villaraigosa has moved in front of James Hahn

"PERHAPS the ugliest city on earth", is how Christopher Isherwood described the place where he spent much of his life. Antonio Villaraigosa, a city councillor who is bidding to become the first Latino mayor of Los Angeles since Cristobal Aguilar left office in 1872, prefers to call it "the most diverse city anywhere in the world". Plenty of Angelenos would agree with both descriptions.

America's second-biggest city, with 3.9m people, is monstrously hard to run. Its patchwork sprawl is almost twice as large as Singapore. It boasts a dysfunctional school system, struggling to cope with children who speak some 92 different languages at home, a troubled police department and (according to a new report this week) the most congested roads in the country. Thanks to a city charter that still focuses on limiting his powers, its mayor has scant control over any of these things.

Yet with only a few days before their May 17th run-off, both Mr Villaraigosa and the incumbent mayor, James Hahn, are spending vast amounts of money (most of it in mud-slinging TV ads) campaigning for that job. Mr Villaraigosa, with a Clintonesque facility to embrace any potential voter, is clearly the front-runner: he won 33% of the vote in the non-partisan primary in March, compared with Mr Hahn's 24%, and he has been well ahead in the

polls.

Yet the race is narrowing. In the *Los Angeles Times* poll, Mr Villaraigosa's lead has shrunk from 18 points in March to eleven, and Mr Hahn's team claims a private poll puts their man in a statistical dead-heat. Add to this momentum a few more vicious TV ads accusing Mr Villaraigosa of being soft on LA's gangs and in the pocket of out-of-state businessmen, and conceivably Mr Hahn will pull off a surprise victory—just as he did four years ago, when his ads savaged Mr Villaraigosa for having attempted to win clemency for a cocaine-dealer.

Most outsiders puzzle why a city whose population is 47% Latino does not have a Latino mayor. Yet the real question for insiders is why Mr Hahn should be facing defeat in the first place. After all, the economy is in good enough shape for the mayor to announce an electorally convenient 10.5% increase in the city budget for the fiscal year beginning on July 1st. And he also has the advantage of belonging to the city's only real dynasty: his father, Kenneth, was ten times elected a Los Angeles County supervisor.

One explanation for Mr Hahn's problems is that he has annoyed blacks by dismissing Bernard Parks, the black chief of the violence-prone Los Angeles Police Department. This may be overstated. After all, Mr Parks sought vengeance by standing against Mr Hahn in the March primary—and lost. Also, he was replaced by the former New York police chief, William Bratton, who has since managed to bring violent crime down by almost 38%. (Sensibly, Mr Villaraigosa has said he will keep Mr Bratton in office.) And racial politics still probably favour Mr Hahn: blacks, who make up 11% of the population (and a far greater proportion of government jobs), may be reluctant to vote for what could be the first of many Latino mayors.

A bigger problem for Mr Hahn is corruption. His administration is under federal investigation for doling out “pay to play” city contracts. Mr Hahn is yet to be implicated, though you would not know that from Mr Villaraigosa's TV ads. Mr Hahn has fired back at Mr Villaraigosa for accepting questionable donations (some since returned) from Florida. Most voters seem to have decided that neither man is exactly a saint. Nearly two-thirds of them in the *Los Angeles Times* poll said the investigations would not affect their vote.

Mr Hahn's greatest challenge may just be that a city with a short attention span is bored with him. Leaving aside the fracas over the police chief, he has hardly set city politics alight. Whereas Mr Villaraigosa delights in pressing the flesh, Mr Hahn shrinks from it—and his speeches are often dull lists of what he has achieved and intends to achieve (for example, setting up a Traffic Safety and Congestion Relief Plan, “which will identify and fix Los Angeles's 25 worst intersections each year”). At a Simon Wiesenthal commemoration last weekend, Mr Villaraigosa found the right sort of eloquence; his rival's speech was short and perfunctory—and he left early.

The mayor has the support of several trade unions and Senator Dianne Feinstein. Mr Villaraigosa's support is both broader and glitzier. It includes the other Democratic senator, Barbara Boxer; “Magic” Johnson, a one-time basketball hero, who is now a leading black businessman; Richard Riordan, Mr Hahn's predecessor as mayor, who could bring in many Schwarzenegger Republicans; Bob Hertzberg, who was narrowly beaten in the March primary and could bring in Jewish voters from the prosperous western part of the city; and, naturally, plenty of local Latino leaders.

Will anybody vote? Turnout is unlikely to be much above 30%, with even lower levels among Latinos. This apathy may seem reprehensible, but it is not entirely illogical. The mayor has precious little control over much of what angers the voters. That leaves the rivals either promising what they cannot deliver—Mr Villaraigosa talks of smaller school classes—or swapping mundane pledges to fill potholes and make the traffic lights work better.

According to a survey in March by the Public Policy Institute of California, only a third of LA's residents trust the city government to do what is right most of the time—roughly the same proportion that plans to leave the Los Angeles region within the next five years. If Mr Villaraigosa does achieve his historic victory, his problems will only just have begun.

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Politics in Washington state

The outing of Jim West

May 12th 2005 | SEATTLE
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A controversial sting embarrasses the mayor of Spokane

AS TOUGH-TALKING conservatives go, they didn't come much tougher than Jim West. The state legislator and mayor of Spokane—a city of 200,000 in Washington state's north-eastern corner—opposed gay rights and abortion and once wrote a bill banning sex between teenagers, gay or straight. Yet Mr West, 54, led a double life. In recent months he apparently conducted an internet conversation with, as he supposed, a 17-year-old boy who went by the alias of “motobrock34”. The conversations were flirty and sometimes overtly sexual, and in their final chats the two arranged to meet.

But motobrock34 was not a teenage boy. He was an investigator hired by a Spokane daily newspaper, the *Spokesman-Review*. In the past week the newspaper has printed its online chats with Mr West, who at one point offered to make motobrock34 his intern. It also claimed that Mr West molested two boys more than 25 years ago, when he was a sheriff's deputy and Boy Scout leader, and that since becoming mayor in early 2004 he has offered city jobs to two young men he met in internet gay chat rooms. Mr West admits to the online conversations, and that he has had “relations” with young men. He denies the molestation charges, and that he lured young men by using the trappings of his office.

Should the *Spokesman-Review* have entrapped the mayor like this? Some think not. “Any time a news organisation tries to tell its public the truth while engaging in deception to obtain it, it poses a risk to the credibility of its report,” says Aly Colón, an ethics expert with the Poynter Institute, a school for journalists. But Steve Smith, the newspaper's editor, is unrepentant, and says his readers don't object. “The fact of the story is more important to them than how we got it,” he maintains.

With recall petitions afoot and the FBI now on the case, Mr West looks doomed. His downfall will send ripples across much of Washington state. He is one of the most powerful politicians in the state's eastern half, and has talked of running for governor. The revelations about him may also boost a “gay civil rights” measure that was narrowly defeated in the state legislature this past April but will probably come up for a vote again next year.

There may be wider ripples, too. Gay conservatives are mumbling of undisclosed homosexuals in the Republican hierarchy. An equivalent sting in Washington, DC (remember Mayor Marion Barry smoking crack?) might find some unexpectedly famous names in Mr West's virtual hunting grounds.

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The Volcker committee

Baying for blood

May 12th 2005
From The Economist print edition

A new row in the oil-for-food scandal—and many more conspiracy theories

AMERICAN critics of Kofi Annan, the UN's beleaguered secretary-general, still have him in their sights. And it looks ever less likely they will let him go.

Last month, two American investigators resigned from the independent committee of inquiry set up by Mr Annan to look into the UN's oil-for-food scandal. They claimed that the committee had been too soft on Mr Annan in its second interim report (it was still pretty scathing about his underlings and his son, Kojo). Now, one of the investigators, Robert Parton, is threatening to hand over to Congress thousands of confidential files. He says he is trying to stop a cover-up; the committee insists he is undermining its continuing investigation and threatening witnesses' lives.

This week the committee, chaired by Paul Volcker, a former chairman of the Federal Reserve, succeeded in obtaining a temporary restraining order from a federal court barring Mr Parton for ten days from disclosing any documents or information obtained as a result of his work on the oil-for-food inquiry. To do so, it said, would violate both federal and international law, as well as Mr Parton's own contractual agreement with the committee. Nobody knows what will happen when the restraining order expires.

Reuters

Where the food was meant to go

Three congressional committees, all conducting their own competing inquiries into the $64 billion oil-for-food scandal, have issued subpoenas demanding that Mr Parton, a former FBI agent, hand over the documents he had illegally copied and taken with him. Two will now wait. But a third, the House International Relations Committee, chaired by Henry Hyde, an old Republican firebrand, had obtained boxes of files from Mr Parton before the restraining order was imposed. It is refusing to hand them back.

The Volcker committee talks of “highly sensitive” information causing “irreparable harm” to its investigations. Possible witnesses will now be more nervous of coming forward. Informants, particularly those in Iraq, could be in danger.

There is still some disagreement about what the Volcker committee's second interim report actually said. When it came out in March, Mr Annan's supporters claimed he had been “exonerated” of all wrongdoing. Mr Annan himself spoke of the committee's “exoneration” coming as a “great relief”. But Mr Volcker has since stressed that the report was actually pretty rude about Mr Annan, not least over his failure to conduct a proper inquiry into the link between his son and the UN's awarding a lucrative oil-for-food inspection contract to Kojo's Swiss employer, Cotecna.

Mr Parton, who headed the investigations into the Kojo affair, implies that he possesses documents that contain “evidence” of wrong-doing by Mr Annan. Mr Volcker has again insisted that “every relevant investigatory lead was faithfully reported” and that there was no cover-up. But he does admit that there was an “active debate” within the committee about whether Mr Annan was aware that Cotecna was bidding for the oil-for-food contract before it was awarded.

In the absence of any documentary evidence or reliable reports by third parties, the committee had concluded that the evidence was “not reasonably sufficient” to show that he did know. “But that ‘non-finding' is hardly an endorsement or exoneration,” Mr Volcker insists.

Mr Parton's lawyer says he handed the documents over to Mr Hyde's committee because he would otherwise have been in contempt of Congress by defying a congressional subpoena. However, as a former investigator for a UN-mandated committee, he must surely have known that he had absolute immunity from any prosecution in relation to his work.

The secret agendas

Both sides are awash with conspiracy theories to explain why the other is acting as it is. The Republicans still focus on opponents of the Iraq war—and not just Mr Annan. This week, a Senate committee looking into the oil-for-food mess, chaired by Norm Coleman, claimed it has documentary evidence that Charles Pasqua, a former French interior minister, and George Galloway, a recently re-elected British MP, had both been granted millions of barrels of lucrative “oil allocations” by Saddam Hussein. Both men have always strenuously denied receiving any oil from the former Iraqi dictator.

From the other side, Mr Annan's friends point out that the Volcker committee's final report, expected this summer, will look at the role of UN member states, particularly those on the Security Council and its sanctions sub-committee, in the oil-for-food scandal. The United States and Britain have already reacted angrily to Mr Annan's suggestion that they decided to “close their eyes” for years to the illegal trade in Iraqi crude oil with Turkey and Jordan, both American allies. The debate over who has what to hide will continue.

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The labour movement

Brothers at arms

May 12th 2005 | WASHINGTON, DC
From The Economist print edition

America's trade unions are in a rut. They are at last having a proper debate about their future

“WE WILL not be a rubber stamp of the Democrats.” That was the pledge of John Sweeney shortly after he was elected boss of the AFL-CIO, back in 1995. Ten years later, the trade-union federation, which represents 13m workers, looks more than ever like an adjunct of the Democratic Party. It gives no hard money to any party, because it is not allowed to; but it routinely endorses individual Democrats in elections; it mobilised 250,000 people in a massive get-out-the-vote drive for John Kerry last year; and it has waged a fierce campaign against President George Bush's plan to reform Social Security.

Meanwhile, union membership has continued to slide. Today, a mere 12.5% of the workforce belongs to a union, compared with over one-third of workers in the 1950s. Much of this has to do with the decline of the heavily unionised manufacturing sector, but the labour movement has also been slow to react. On Mr Sweeney's watch, it has lost nearly 800,000 members. And there is grumbling in the ranks about the movement's priorities.

Andy Stern, the feisty boss of the service workers' union, the biggest and fastest-growing in the movement, says Mr Sweeney has poured too much money into politics. The $44m political budget for the past two years (a number which excludes staff) should have been spent on increasing the size of the movement. Only when unions get bigger, goes the argument, will they be able to sway policy.

Mr Stern has threatened to bolt from the AFL-CIO unless the unions that do the most organising get a 50% rebate. He is also pushing John Wilhelm, who represents hotel workers, to challenge Mr Sweeney. The latter is up for re-election at the AFL-CIO convention in July.

Mr Stern met with four rebel bosses this week in Las Vegas to plot strategy. They are cross that Mr Sweeney plans to increase the political budget to $60m (again not counting staff salaries). The extra cash will go on setting up a year-round field operation to lobby all levels of government. Mr Sweeney has doubled the budget for organising to $22.5m, but the rebels would rather spend $65m. Mr Wilhelm calls the $7.5m earmarked for organising at target companies, such as Wal-Mart and Federal Express, “radically insufficient”.

Nevertheless, many union barons are rallying around Mr Sweeney. That is partly because they object to Mr Stern's pushiness. But they argue that organising cannot be separated from politics. For public-sector unions in particular, politics is crucial. In many states, collective-bargaining rights for state employees are granted by the governor. When Republican governors came into power in Missouri and Indiana last year, they promptly tore up orders granting such rights.

It is not hard to see why the public-sector unions want to fight Mr Bush. By outsourcing jobs to private contractors, he has trimmed the federal payroll. Citing national security, he has rolled back the collective-bargaining rights of thousands of workers in the Department of Defence. And he has all but banned transport-security workers in the

Department of Homeland Security from unionising.

Many private-sector unions also fear the administration. The Department of Labour has issued a new rule requiring them to disclose the purpose of expenditures above $5,000. And the unions complain that the National Labour Relations Board (NLRB), the federal agency that governs union elections and arbitrates union-employer disputes, is stacked against them. It banned Brown University graduate students from organising last year. Now the unions think it will limit “card-check”—a somewhat dubious system where a union gets most of the workers at a firm to sign a pledge card and thus avoids NLRB-supervised secret-ballot elections.

Some union leaders think the labour movement ought to support a few token Republicans; but only a few more, and not very conspicuously. Mr Stern baffled the barons last year when he gave $570,000 to Patrick Ballantine, a Republican challenger for the governorship of North Carolina who had promised pay rises for state workers. “He's playing into the Republicans' hands,” says Leo Gerard, president of the steelworkers' union.

But is Mr Stern really so wrong? The unions' current Democratic strategy has plenty of political drawbacks. It means the Democrats take them for granted, moderate Republicans do little to help them and they have to endure the wrath of conservatives like Mr Bush. It also plainly goes against many of their members' interests. One in three unionists voted for Mr Bush last year; many of them are traditionalists who do not like to see their money going, however indirectly, to support abortion choice or gay marriage. “We need to get across that this is a movement that believes in faith and individual rights,” admits Harold Schaitberger, the head of the firefighters' union.

On the other hand, it is hard to see how mending fences with Republicans would help the unions stem their decline. In many southern and western states they face “right to work” laws, which allow workers to opt out of joining. (Elsewhere, workers are forced to pay dues to the union if a majority of the workers vote to have one.) Ever more workers nowadays are part-timers, who are harder to organise. And as Richard Hurd of Cornell University points out, businesses are sophisticated at shutting unions out. Tactics include avoiding the hiring of rabble-rousers (something Wal-Mart is accused of) and dividing people into teams, which bolsters morale and makes complainers unpopular.

These tactics appear be to working. Despite rising inequality in wages, job satisfaction is quite high. And without a brewing sense of injustice, it is tough to get workers to rise up against their bosses.

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Savings and the poor

Sugar-coating the piggy bank

May 12th 2005 | WASHINGTON, DC
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Even then, many poorer Americans can't be persuaded to save

AMERICANS save too little. The personal saving rate, currently running at around 0.5% of post-tax disposable income, is at a record low. Poorer people, in particular, have too few financial assets. Fewer than one in three families earning below $40,000 have any retirement savings. And the typical family in this income group has only around $2,000 in non-retirement savings.

Both Republican and Democratic politicians are keen to boost saving among poorer Americans. The problem, however, is how.

Politicians' main method for boosting thrift is a swathe of tax-advantaged retirement accounts. This year these accounts will cost some $150 billion in foregone tax revenue. Most of this subsidy goes to richer Americans, who have higher marginal tax rates and who are more likely to save anyway. Only one saving incentive—the Saver's Credit—is targeted at poorer Americans. It is worth only about $1 billion in forgone tax revenue and is due to expire in 2006. And even that offers no incentive to the 50m households who pay no income tax.

A new study suggests there may be a better way. With help from H&R Block, America's biggest tax-preparation firm, economists at the Retirement Security Project, a bipartisan research group set up by Georgetown University and the Brookings Institution, studied the impact of offering poorer households saving accounts with various levels of matching contribution.

Unlike tax credits, matching contributions give poor people an incentive to save, regardless of how much tax they pay. During this year's tax-filing season, 15,000 of Block's clients in poorer parts of St Louis were offered the chance to open an Individual Retirement Account. As a carrot, they were offered, by the generous accountants, up to $1,000 at various matching rates.

The incentives seem to have worked. The higher the match, the more people saved. Without any inducement from Block, only 3% of its clients contributed to an IRA. With a 20% match (ie, if you saved $2,000, Block gave $400), one in ten put some money in. And with a 50% match, the figure was better than one in six. Those offered a 50% match put in eight times more money (excluding the match) than those offered no cash. And, so far at least, they have not rushed to cash in those bribes.

So far so good. But it is also noticeable that, even at a 50% match, the vast majority of Block's poor clients chose not to save. This may have been because they had no advance notice and had to make up their minds quickly. They may also have been suspicious of the experiment. Over time, the take-up rate would presumably increase. Nonetheless, this study suggests that the road to thrift in poor America is still uphill.

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Crime and punishment

Testing times

May 12th 2005 | RICHMOND
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Faulty DNA tests are embarrassing Virginia's officials

IN VIRGINIA, as in many other states, highly sophisticated DNA testing is supposed to take the guesswork out of murder and rape investigations. But some of these tests, which are run by the state government, may have been faulty, and perhaps even compromised by politics. Now Virginia's governor, a pro-death-penalty Democrat who may run for president in 2008, wants to get the bottom of it.

Mark Warner is backing a review of 161 DNA tests, possibly including the cases of men already executed. Defence lawyers and prosecutors say the inquiry could bring chaos, disrupting investigations, delaying trials and triggering the release of more jailed felons, eight of whom have already been exonerated by DNA tests.

Until recently, the Virginia DNA programme was among the most highly regarded in the country. But a study by the American Society of Crime Laboratory Directors has uncovered evidence of flawed testing in the 1982 murder and rape case of a former death-row inmate, Earl Washington. Because of dodgy evidence, the mildly retarded Mr Washington was pardoned in 2000 by Mr Warner's Republican predecessor, James Gilmore. However, he has never been fully cleared.

Defence lawyers and prisoners' advocates have long been worried that DNA tests can be compromised by human error. As Eric Freedman, a lawyer for Mr Washington, told the *Richmond Times-Dispatch*, “There's every reason to believe that in every capital case, there is enormous political pressure to break the rules, if necessary, to keep the defendant convicted.” In the case of Mr Washington, the audit by the American Society of Crime Laboratory Directors showed that a state forensic scientist, Jeffrey Ban, relied on botched tests on semen found in Mr Washington's alleged victim to rule out another suspect, Kenneth Tinsley, a convicted multiple rapist now serving two life sentences. Among the tests that will be rechecked are 41 handled by Mr Ban since 1999, some of them capital murder cases.

Enhancing the death penalty

The outside audit also showed that employees of the state division of forensic science felt that they were under pressure from their bosses, and Mr Gilmore's office, to tie up the Washington case despite confusing evidence. Mr Gilmore, a former prosecutor now in private practice, denies pushing the agency for results. But he argues, in turn, that the media pushed him.

Virginia, with 94 executions since 1982, the second-highest number in the country, is already taking steps to shore up DNA testing. To shield the state crime laboratory from outside influences, the Republican-controlled legislature this year made it an independent agency. Critics, however, also want a stand-alone office to monitor the lab's work.

Virginia is not the only state where DNA testing is under scrutiny. Texas—America's undisputed execution champion, with 342 since 1982—is debating whether a governor's commission should investigate erroneous murder convictions. “Texans deserve a criminal justice system they can trust protects the innocent and punishes only the guilty,” Rodney Ellis, the state senator pushing for the inquiry in Austin, told the *Washington Post*. Already, 15 Texas prisoners have been freed after DNA tests were found faulty. Nationally, 159 inmates have been exonerated, according to the Innocence Project at Yeshiva University in New York.

Back in Virginia, the controversy surrounding the crime lab threatens to spill into the campaign to choose the next governor. The likely Democratic nominee, Timothy Kaine, the lieutenant-governor, is welcoming the review of DNA testing; but then, as a Catholic, he opposes the death penalty anyway. The presumed Republican candidate, Jerry Kilgore, a former state attorney-general, favours capital punishment and has called for its expansion with a “Death Penalty Enhancement Act”. But Mr Kilgore must tread lightly. He has opposed additional DNA tests that could clear Mr Washington—and could restore public confidence in a laboratory that may become a national embarrassment.

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The mid-west and China

An odd alliance?

May 12th 2005 | CHICAGO
From The Economist print edition

Despite some protectionist howls, a friendship of sorts

ON A recent tour of Millennium Park with some Chicago businesspeople, the mayor of Shanghai, Han Zheng, spotted some local policemen on Segway human transporters and asked to try one of the trendy scooters. Soon the leader of China's booming financial hub was teetering around the park—and generally rather enjoying himself.

Such a cuddly image would on the face of it seem at odds with China's reputation in the mid-west. America's industrial heartland is usually the first place people mention when they talk about protectionism. Throughout last year's election, John Kerry traversed the region, fuming about China and Benedict Arnold companies. Many of the politicians keenest to keep China out have come from the region—from Dick Gephardt, the erstwhile House minority leader, to Senator Evan Bayh of Indiana, who is a prominent supporter of the Stopping Overseas Subsidies Act (which is aimed at China).

Yet as Mr Han's much-feted entourage learned, not everyone in the mid-west wants to slam the door on China. Seminars on China are now all the rage for local business people; Chinese money (and students) are flowing into universities and research hubs like Madison and Ann Arbor; Chinese investors are buying up local factories, mines and companies.

In one way this just represents the familiar fact that the mid-west is actually a lot more cosmopolitan than it is often given credit for. The region has a long history of contact with China; for instance, it supplied many of the missionaries who tried to convert the Chinese in the nineteenth century. Early last century, Minnesota became a popular refuge for Chinese fleeing racist riots in California. The University of Minnesota, which enrolled its first Chinese students in 1914, is still their most popular campus in America; in 2003, it counted 1,200 Chinese students.

These old ties help explain why politicians from Minnesota, such as Walter Mondale and Rudy Perpich, were among the earliest to lead American trade missions to China. All the same, there has been a particularly blatant attempt by the mid-west establishment to deepen the relationship recently.

One example is the new Midwest US-China Association, which is supposed to promote investment in the heartlands of both countries; it is chaired by Adlai Stevenson, a former senator (and son of the presidential candidate), and it has conspicuous backing (though no money) from the Chinese government. Another is the Chicago-Shanghai dialogue, a series of meetings between leaders of the cities. There are plans for a new Confucius Institute. This

week, the Chicago Board of Trade signed a deal with the Shanghai Futures Exchange “to pursue co-operative programmes and potential joint business projects”. Meanwhile, virtually every governor in the region has either visited China, or seems just about to do so—with the odd exception of Illinois's Rod Blagojevich, who seems to leave his state's “foreign policy” to Mayor Richard Daley of Chicago.

These ties should not be exaggerated. It is hard to think of any governor in the country who is not trying to attract Chinese investment. For its part, China is still markedly less interested in the mid-west than it is in, say, California. One Chinese government official guesses that the mid-west gets only around a tenth of China's $1 billion worth of direct investment in America.

What will the effect of all this official toing and froing be on protectionist sentiment? Anecdotally, there seems a clear difference between the region's big global cities, such as Minneapolis and Chicago, where the Chinese are feted, and the smaller towns, where they (and globalisation in general) are feared.

This is not helped by the Chinese themselves, who have tended to stick to the big cities. There are naturally exceptions—one Chinese firm has helped resuscitate a mine in Minnesota's Iron Range, another has revived a trailer factory in Monon, Indiana. But as one trade booster admits, when Chinese businesspeople come to the mid-west, “they don't want to go to Omaha or Iowa City; they all want to come to Chicago”. Presumably to try out the fancy new police scooters.

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Lexington

Come back, Barry

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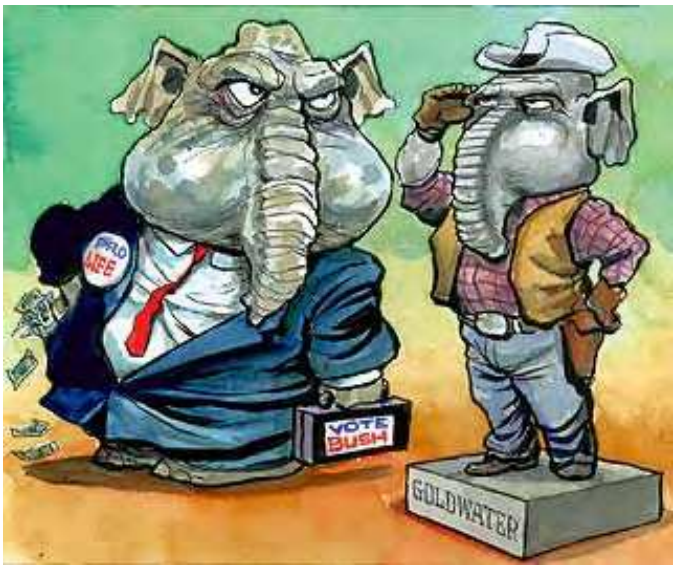
From The Economist print edition



The Republican Party continues to abandon small-government conservatism at its peril

THE Goldwater Institute, a libertarian think-tank based—where else?—in Phoenix, Arizona, contains a striking photograph of the young Barry Goldwater, dressed in girlish clothes and accompanied by a tame monkey. The precise meaning of the photograph—was the monkey borrowed, or a permanent part of the maverick Arizonan's household?—is lost to history. But for those with a taste for symbolism the photograph raises an intriguing question: is Goldwaterism anything more than an eccentric side-show in today's Republican Party?

Although he went down to a huge defeat in the 1964 presidential election, Goldwater did as much as anybody to launch the modern conservative movement. Yet everywhere you look, the Republican Party is abandoning his principles.

The senator's conservatism was rooted in small government. But today's Grand Old Party has morphed into the “Grand Old Spending Party”, as the libertarian Cato Institute dubs it. Total government spending grew by 33% in George Bush's first term. Goldwater's hostility to big government also extended to government meddling in people's private lives. He thundered that social conservatives such as Jerry Falwell deserved “a swift kick in the ass”, and insisted that the decision to have an abortion should be “up to the pregnant woman, not up to the pope or some do-gooders or the religious right”. For Goldwater, abortion was “not a conservative issue at all”. For many Republicans today, it often seems to be the only conservative issue.

Goldwater was a famous devotee of states' rights. (His opposition to the Civil Rights Act on those grounds earned him a reputation on the left as a racist.) Mr Bush's Republicans have no qualms about trampling states' rights in the name of the greater good. In the Terri Schiavo case, they passed a law to try to take the case out of the state courts and put it in a federal court, with the president flying all the way from Texas to sign the bill.

Why has modern American conservatism turned its back on such a seminal figure? The explanation among Republicans is the war on terror. Surely you need to spend more on defence when the country is under attack? Surely you need a stronger federal government when terrorists are trying to kill you? As the Cato Institute shows, this is tripe. Even if you strip out spending on defence and homeland security, Mr Bush still wins the prize as the biggest booster of public spending for three decades. And not even the *National Review* has yet demonstrated the links between terrorism and the Terri Schiavo affair, or, for that matter, between terrorism and the Justice Department's attempts to crack down on assisted suicide and medical marijuana.

The real explanation is grubbier. In the 1990s, Mr Bush calculated that small-government conservatism had run its course as an election-winning strategy. So he embraced conservatism with a happy face, expanding the Department of Education, not killing it. Karl Rove summed up this philosophy at a recent meeting of conservative activists as putting “government on the side of progress and reform, modernisation and greater freedom”.

This love affair with big government has been inflamed by the experience of power. Ten years ago, the champions of conservatism were anti-government radicals such as Newt Gingrich and Dick Armey. Today they are patronage-wallahs like Tom DeLay. The congressional Republican Party, once a brake on spending, is now an accelerator. Congress trimmed Mr Clinton's budgets by $57 billion in 1996-2001; in Mr Bush's first term, it added an extra $91 billion of domestic spending.

Despite this, it would be a mistake to dismiss Goldwaterism as a side-show. The Arizonan would have applauded at least some of Mr Bush's policies, including his tax cuts, his strong defence of gun rights, and Social Security reform, a cause that Goldwater embraced in the 1960s. He would also have found something to like in some of Mr Bush's conservative judges-in-waiting, particularly Priscilla Owen and Janice Rogers Brown, who have both been vigorous supporters of property rights.

Goldwaterism is also flourishing at the local level, particularly in the west. Thanks in part to the Goldwater Institute, Arizona has taken bigger strides towards school choice than any other state in the union. Last year, Seattle rejected overwhelmingly a do-gooder coffee tax. Florida recently passed a “right to shoot” law, giving citizens the right to shoot people who attack them in the street.

George Bush's balancing trick

Above all, Americans are voting for Goldwaterism with their feet. In 1995-2000, the ten states with the lowest overall tax burdens (including Florida, Texas, Nevada and Colorado) enjoyed a net gain of more than 1.3m people from other states. The nine states plus the District of Columbia with the highest tax burdens suffered a total loss of more than 1.7m. Goldwater's hometown of Phoenix grew by 45% in the 1990s.

Which raises an interesting possibility: big-government conservatism may not be quite the guarantor of long-term hegemony that the Bush machine imagines. Seven out of ten Americans (and one in two evangelical Christians) disapproved of the decision to intervene in the Schiavo case. After Mr Bush, the Republican Party's main crowd-pullers are Rudy Giuliani and Arnold Schwarzenegger (both of whom mix social liberalism with opposition to taxes) and John McCain, an Arizonan who takes a more conservative stance on matters like abortion but who shares Goldwater's taste for maverick politics.

One reason why Ronald Reagan had such an invigorating impact on his party is that he never allowed the Christian right to gain too much power at the expense of the Goldwater right. Messrs Bush and Rove may have to pay more attention to that balance if they are to realise their dream of turning the Republicans into America's permanent ruling party.

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Central American integration

Together again, after all these years?

May 12th 2005 | GUATEMALA CITY AND SAN JOSÉ
From The Economist print edition

A new togetherness, whether politicians like it or not

AFTER decades, nay centuries, of on-and-off romance, there is a sense in Central America that the region might finally be moving toward some sort of federal get-together—if not a full-blown marriage, then at least a European-style “ever closer union”.

Backed by all five of the isthmus's current pro-American free-market governments, the momentum toward integration has been given a fillip by plans to set up a Central American Free-Trade Agreement (CAFTA) between Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala and the United States—with Panama tagging along in a separately negotiated agreement.

Three countries—El Salvador, Honduras and Guatemala—have already ratified CAFTA. Despite growing fears that American congressional opposition could scuttle the agreement—President Bush was due to meet the five Central American presidents on May 12th in a bid to rally support for the deal—it need not mean the end of the whole project. The other signatories could decide to set up a trading block of their own, without America. There is already talk of their being “very close” to a unified customs union.

Besides, over the past decade, other forces have been driving along regional integration at what has sometimes seemed a relentless pace—despite the politicians. Even before CAFTA, this had raised hopes of a new love-match.

But, the sceptics scoff, this is not the first time Central America has been down this road. Ever since the Spanish were booted out of the region in 1821, the isthmus's seven small countries (with a total population of 36m in 2000) have been trying to hitch up. But it has always ended in tears.

First came the United Provinces of Central America, modelled on the United States. But by 1840, it had broken up. Then, in 1960, the Central American Common Market was set up. But it, too, had fallen apart by the end of the decade. So why should things be any different this time?

Because, argue the integrationists, there is now an unstoppable trend towards regional economic integration from the bottom up. This, they believe, should be enough to diminish, and eventually eliminate, all the nationalist niggles that seem to dog closely packed neighbours.

Since the end of Central America's civil wars in the mid-1990s, there has been an unparalleled level of regional business consolidation, argues Arturo Condo, an economist at INCAE, the region's leading business school. This has given rise for the first time to recognisable regional brands. These are breaking down political and geographic barriers faster than the politicians ever could, he argues.

In financial services, for example, Nicaragua's successful BAC and Banco Uno banks have both expanded across the region. In aviation, El Salvador's TACA has bought up several other airlines to make it a Central American titan, alongside Panama's Copa Airlines. And in the supermarket sector, Guatemalan and Costa Rican brands can now be found everywhere.

But tourism could prove an even more powerful integrating force, Mr Condo believes. While Costa Rica is already a world leader in eco-tourism, most other Central American countries remain relatively under-developed, largely because of the damage done to their reputations during their civil wars. Stressing the region's environmental or archaeological assets could help foster cross-border tourism, he says. The rainforests of Panama, Costa Rica and Nicaragua already form an obvious tourist “niche”; the ancient Maya sites of Guatemala and Honduras another.

The need to improve the region's dreadful infrastructure, almost untouched since the 1960s, should also help foster integration. Governments are already starting to work together on joint projects, such as the new container port at La Unión in El Salvador, which is part of a plan to link the Pacific and Atlantic coasts.

Many of the region's social challenges, such as the continuing high levels of poverty and illegal immigration into the United States, could also benefit from a more unified approach. One of the biggest scourges in Central America are the *maras*, the dangerous and well organised gangs that plague the region and, increasingly, America too. A decision to mount a joint campaign against them together with the FBI could eventually lead to the creation of regional law-enforcement bodies.

For the current generation of Central American leaders, such practical steps are a far better way to ensure long-term integration than sounding off about regional parliaments, unified currencies, common flags and the like, as previous generations were apt to do. That sort of thing can come later. Even if the American Congress refuses to ratify CAFTA, many believe this will not block what the integrationists say is now an unstoppable march to eventual union. The sceptics remain dubious.

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Canada and war

Don't even memorialise it

May 12th 2005 | OTTAWA
From The Economist print edition

A new war museum sparks a typically Canadian row

HISTORICALLY the 160-acre LeBreton Flats, just upriver from Ottawa's Parliament Buildings, has been a place of both war and peace. On its slopes, Irish canal builders and French-Canadian lumberjacks used to camp and brawl. For the past four decades, it has been a toxic wasteland. Now, after a C$100m ($80m) face-lift, it has become home to Canada's spectacular new War Museum, opened on May 8th, the 60th anniversary of VE-Day.

But the C$136m museum is already mired in a typically Canadian row over whether it presents too bellicose an image for a peaceloving country. The museum's purpose “is not to celebrate hostility”, Canada's governor-general (and commander-in-chief), Adrienne Clarkson, insists. While it is not easy to find a peace motif among all the traditional artefacts of war, a message of regeneration does emerge.

The museum's grass-covered roof tilts up towards Parliament's Peace Tower. Its chief architect, Raymond Moriyama, is a Japanese-Canadian who was interned in Canada during the war. And among its 13,000 works of art are some strikingly frank portrayals of the underside of war: a portrait of a disgraced Canadian peacekeeping soldier who tortured a Somali boy; another of a despondent General Roméo Dallaire, head of UN troops in Rwanda during the 1994 genocide.

But if the museum does not glorify war, does it sufficiently project Canada's self-proclaimed role as international peacemaker? Ever since Lester Pearson, then Canada's top diplomat, helped end the 1956 Suez crisis by replacing the Anglo-French invasion force with the world's first international peacekeeping contingent, Canadians have headed such blue-helmet units, taking part in some 45 UN missions from the Sinai peninsula to Afghanistan.

Although the new museum does reflect some of this, many Canadians would like it to do more. Why not celebrate, they ask, years of Canadian diplomatic efforts culminating in the creation of the International Criminal Court (now headed by a Canadian), the UN Convention on the Law of the Sea and the Ottawa Treaty on anti-personnel mines? Or the unsung exploits of the multitude of Canadian humanitarian groups working abroad? Probably because war is more exciting than peace, and perhaps because the proper subject of a war museum, even in Canada, is war.

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Mexico

Accursed Chronicles

May 12th 2005 | MEXICO CITY
From The Economist print edition

When a libel suit by the president's wife signals more press freedom, not less

IT IS almost impossible to buy “Cronicas Malditas” (Accursed Chronicles), the latest book on Marta Sahagún de Fox, the Mexican president's wife and former press secretary. Mexico's largest chains do not stock it, and every bookstore that does is sold out.

Last week, Ms Sahagún filed a lawsuit for libel against the book's author, Olga Wornat, an Argentine journalist. This was unusual. Political figures in Mexico do not usually trouble themselves with petty matters like lawsuits. Censorship and intimidation have been the standard way of doing things.

But even if Ms Sahagún's husband has proved ineffectual as a president, his ending of the Institutional Revolutionary Party's 71-year reign in 2000 has resulted in more press freedom. As Santiago Creel, the interior minister, points out, there has not been a single case of censorship under the current administration. “The first lady doesn't come to me,” he notes: “She goes to the courts. It's the new Mexico.”

It is new indeed, but not new enough for Ms Wornat, who is legally barred from leaving Mexico while the suit is pending. She says that she is being followed and her phone tapped. One of the country's leading weeklies, *Proceso*, is also being sued. It has published excerpts from the book alleging that Ms Sahagún's three sons from a previous marriage had amassed fortunes with government help. They deny this.

Since her marriage to the president in 2001, Ms Sahagún has been responsible for much of his bad press. Allegations of political manipulation—which she denies—have plagued a charity she heads, and last summer she was forced to refute persistent rumours that she was planning to run for the presidency herself.

But Ms Sahagún has found something else to keep her busy. For those unable to get hold of a copy of Ms Wornat's book, an alternative luckily is available. Ms Sahagún's autobiography, “Caminando” (Walking), came out at the end of April and is in stores everywhere.

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Haiti

Another martyr?

May 12th 2005 | PORT-AU-PRINCE
From The Economist print edition

On hunger strike, Haiti's former prime minister may not last much longer

THE country surely doesn't need another martyr. But the current stalemate between Haiti's interim government and its jailed ex-prime minister, Yvon Neptune, could add to his country's tragic statistics. Mr Neptune is nearly four weeks into a hunger strike (it will be 27 days on May 13th) and he shows no signs of relenting. He could die soon.

Imprisoned last June for his alleged role in a massacre in the coastal city of St Marc, he has still not been formally charged. Hence his hunger strike. In theory, Haiti's constitution requires that charges be presented within 48 hours, though that rarely happens.

At the time of the massacre, Haiti was convulsed by an armed uprising that led to the ouster of President Jean-Bertrand Aristide at the end of February. A few days earlier, up to 50 government opponents were reportedly killed by local police and a violent pro-Aristide gang called Bale Wouze (Clean Sweep). But there is little evidence that Mr Neptune, then prime minister, played any direct role in the attack himself.

The case has further tarnished the rapidly deteriorating image of Haiti's interim government, appointed in the aftermath of Mr Aristide's hurried departure. It could also complicate diplomatic efforts to achieve political reconciliation in the run-up to legislative and presidential elections later this year.

The government's handling of the case has aroused strongly worded criticism from UN peacekeepers and the United States embassy. “This case needs to be resolved very expeditiously,” James Foley, America's ambassador, says: “It's taken way too long.”

Mr Neptune has a special place in American affections. While in office, he secretly co-operated with United States anti-drug agents in the capture of two key traffickers currently jailed in Miami. American officials praise his “courage” in standing up to the traffickers who had corrupted Haiti's police. They also praise Mr Neptune's decision to stay on temporarily as prime minister to assist in the transition of power after Mr Aristide fled the country.

But Haiti's political and business elite has little sympathy for the former prime minister, widely regarded as a pawn of Mr Aristide's lawless rule. While the interim government strenuously denies accusations of political persecution, its handling of the case looks dubious.

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Iran's nuclear ambitions

Now it gets sticky

May 12th 2005
From The Economist print edition

Talks with Britain, France and Germany are on the verge of collapse

IT IS no longer a threat; it is now a promise. Iran has told Britain, France and Germany, the three countries trying to talk it out of producing uranium and plutonium that could be used to fuel nuclear power reactors or misused to make bombs, that it will soon end the suspension of uranium-related work that it agreed to six months ago in Paris. Since that suspension was the Europeans' condition for talking in the first place, hopes that diplomacy might avert a confrontation over Iran's nuclear ambitions are also at the point of collapse.

Iran's first step, it says, will be to resume work at its uranium-conversion plant at Isfahan, where natural uranium (yellowcake) is turned into a gas that can then be spun in centrifuge machines to produce more usable uranium. If the Iranians go ahead, the Europeans will call an emergency meeting of the 35-member board of the International Atomic Energy Agency (IAEA), the UN's nuclear guardian. A very different diplomatic process will then be under way, one that could soon see Iran referred to the UN Security Council.

Undeterred, Iranian officials say that work could also resume later this year at a pilot centrifuge plant at Natanz. That would cause even greater alarm, since mastering the techniques involved in enriching uranium (so far Iran claims to have done only experimental work) is also one of the biggest hurdles to bomb-building.

Iran insists that its nuclear programme is peaceful. Its foreign minister, Kamal Kharrazi, told the five-yearly review

of the Nuclear Non-Proliferation Treaty last week that his country had a right under the NPT to all such technologies and was determined to use them. Yet Iran has a 20-year record of lies, cover-ups and evasions (which it shrugs off as “discrepancies”) in its dealings with IAEA inspectors. With the NPT spotlight already on its transgressions, why provoke a showdown now?

Both Iran and the Europeans said their aim was to agree on “objective guarantees” that Iran would not be doing any military dabbling. This, Iran said, could be achieved through inspections, while it got on with enriching uranium, first using tens of machines, then thousands. The Europeans argue that, given Iran's record of breaching safeguards, the only objective guarantee would be a permanent halt to all uranium and plutonium work.

They offered inducements, including trade and other less proliferation-prone nuclear technologies. Earlier this year, they persuaded America's president, George Bush, to support them too. He agreed that Iran could open talks on membership of the World Trade Organisation and import spare parts for its ageing fleet of civilian aircraft. Iran's response, however, was to back away from these talks.

America's involvement, the Europeans had hoped, would keep Iran at the table at least until after the country's presidential election next month. But politics could complicate things. This week Ali Akbar Hashemi Rafsanjani, a former president, officially launched his bid to reclaim the job. Some observers speculate that Mr Rafsanjani's supporters might have engineered the current crisis, so he could take credit for resolving it. Others suspect that, on the contrary, his harder-line rivals are hoping to escalate matters so that even he, Iran's arch deal-maker, cannot find a solution. No outsider really knows what Iran's leaders are up to.

Although inspectors have uncovered a string of nuclear activities that make little civilian sense, no direct evidence of bomb-making has turned up. Instead there are questions: about the different uranium traces found in the country; about whether Iran just filed away designs for more advanced centrifuges, as it claims; about how much plutonium it produced, and when. Inspectors are still investigating orders for a site at Lavizan, which Iran had bulldozed, carting away all the topsoil, before they got there. After one quick look, they have been barred from poking about at a site at Parchin where there are suspicions of high-explosive work (needed to perfect triggers for nuclear bombs).

Pakistan has not allowed any outsiders to question Abdul Qadeer Khan, its former nuclear chief who masterminded an illicit nuclear supply network that was tapped by Iran, among others. Earlier this year inspectors gleaned more details of Iran's nuclear imports from Buhary Syed Abu Tahir, Mr Khan's former right-hand man, who is under arrest in Malaysia. That prompted Iran reluctantly to produce more documents. But now Mr Tahir is off-limits too.

America's intelligence on Iran's programme is limited. However, it is increasingly confident that a cache of computer files that came into its possession, and were said to be from Iran's missile programme, are genuine. These show design work on cones for missiles built around an unexplained object that it is thought could represent a relatively compact nuclear warhead. Whether Iran has, or is working on, such a device is not known, however.

If Iran is indeed intent on building a bomb, then diplomacy never stood a chance. Either way, it may calculate that its best tactic is to return to enriching, while offering to stay under inspection in the NPT and hope it can get away with pursuing what Iranians call the “Japan model” (though Japan has never been accused of nuclear cheating). This would involve building up sizeable legitimate stocks of uranium and plutonium to have on hand when needed. Yet this would also leave Iran the option of a quick break-out from the NPT at a time of its own choosing.

So far the IAEA's board has been united in calling on Iran to come clean about its nuclear programmes and co-operate with inspectors. Yet if the Europeans press for stronger action, including referral to the UN Security Council, that consensus may fray. Several countries, including South Africa and Brazil, are loth to set precedents that could curtail their nuclear-fuel plans.

Russia, for its part, hoping to protect its legitimate trade with Iran in reactor-building and fuel services, has indicated it will not stand in the Europeans' way. If Iran refuses to reconsider, a simple majority can refer the matter to the Security Council. But it will be hard to keep up the pressure there. Sanctions are unpopular and often ineffective. Iran is counting on that.

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Egypt

Democracy, Egyptian style

May 12th 2005 | CAIRO
From The Economist print edition

Who does President Hosni Mubarak think he is kidding?

AP

My reforms will be this big

ELECTIONS in Egypt may be largely fake, but they do speed the pulse of its sluggish politics. A few months before voting day, the government raises salaries, offers to talk to the loyal opposition and promises big reforms. During the campaign, it also tends to squash any serious challengers to the ruling National Democratic Party (NDP), often by packing them in jail. Once the polls are closed, prisons can be emptied again and reforms quietly dropped.

With both presidential and parliamentary elections looming in the autumn, this cycle looked set to repeat itself. But then President Hosni Mubarak released what state-run papers called a bombshell. In an historic step towards proper democracy, he proposed fixing the constitution to allow more than one person to run for his office. He hinted at further reforms, and even refused to say whether he planned to run again. (This coyness was belied by an eight-hour television interview that allowed him to list his many achievements, and the qualities that uniquely suit him to be commander-in-chief.)

Yet things are not working out quite as they usually have during Mr Mubarak's 24-year tenure. When, earlier this year, an ambitious and critical politician, Ayman Nour, was arrested on flimsy charges, western governments kicked up such a fuss that he was released. The president's bombshell, meanwhile, proved something of a dud with the sceptical public. Rowdy dissidents persisted in gathering on street corners to shout “Enough”. The most potent opposition force, the generally quiescent Muslim Brotherhood, followed suit, organising sizeable street protests across the country.

Cynics had joked that once the tame legislature got hold of Mr Mubarak's election proposal, it would write a law stipulating that any candidate must have 24 years of presidential experience. The prediction was not far off the mark. When the draft bill was released this week, even the loyal opposition shouted foul. “The Death of Political Life in Egypt,” cried a headline in *Al Wafd*, a newspaper run by a usually docile liberal party of the same name.

An exaggeration, perhaps, but the law obliges prospective candidates to be endorsed by 250 “elected” officials. Conveniently, the NDP controls the institutions to which they were elected, with 90% of seats in both houses of parliament, and a handy 98.5% of seats on provincial councils. The draft also requires parties to be at least five years old to put forward candidates, thus barring Mr Nour, whose Tomorrow Party was only licensed in November. (Even so, government thugs attacked busloads of Mr Nour's supporters when they went to inaugurate a provincial branch office last week.)

And of course the Muslim Brotherhood, despite having become less radically sectarian and more democratic, is outlawed anyway. That has not kept some of its members from winning parliamentary seats as independents. But it does provide an excuse for the occasional crackdown. Following the recent protests, upwards of 1,500 brothers were arrested, including Essam Erian, a relatively telegenic figure among the brotherhood's elderly leaders.

It is quite possible that the government will pull off its election game, if the NDP can find a candidate to “oppose” the 77-year old Mr Mubarak. The middle class remains largely passive. Rich Egyptians are benefiting from better economic prospects, and others, such as the large Coptic Christian minority, would prefer the current regime to experiments in real democracy. A recent spate of small-scale, primitive terror attacks in Cairo has served as a reminder that stability has its benefits.

But other cracks have appeared inside the state itself. In an unprecedented move, the union that represents the country's 9,000 overworked, underpaid judges has threatened to boycott the election, unless judges are allowed to supervise it and also granted legal protection against ministerial meddling in their courtrooms. Egypt looks set for an unusually hot summer.

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Palestinian elections

New Hamas, new Palestine?

May 12th 2005 | BEIT HANOUN
From The Economist print edition

Hamas gets stronger; Fatah and Israel get scared

AN EAGER crowd gathers in Beit Hanoun, at the north-east edge of the Gaza strip, to explain why it is so great to have Hamas running their town. Since winning 11 of the 13 council seats in an election in January, the Islamic Resistance Movement has cleaned up the streets, started free school buses and opened a women's centre. Projects for repaving, rebuilding and replanting areas destroyed by Israeli incursions are getting under way, and warnings that foreign donors would be wary of financing a Hamas council seem to have been baseless. Unlike before, council employees work full hours, official vehicles are used only for official business, and it is easy to get in to see the mayor.

Is there anything Islamic about it? “No,” smiles Walid Mohammed Ismain, a councillor. “We still have the picture of Yasser Arafat in the mayor's office.” Fatah, the late Palestinian leader's party and the ruling force in the Palestinian Authority (PA), is watching Hamas with growing alarm. The Islamists, who had never run in elections before this year, last week took a majority in 37 of 84 local councils. Fatah has claimed victory in up to 57, but in fact won only 30 outright. The rest are controlled mainly by “independent” councillors, some perhaps loyal to Fatah, but at least some of whom are disguised Hamas members, keeping a low profile to avoid being targeted by Israel. Hamas now has its eye not only on the third and biggest set of municipal elections, due in August, but more importantly, on the July vote for the Palestinian Legislative Council (PLC), which could give it a say in national policy.

Israel is also worried, for it sees Hamas as the chief architect of terror attacks (though pro-Fatah militias are equally active), and with an unclear position on whether Israel should exist (though it has shown signs of favouring a negotiated peace). Silvan Shalom, Israel's foreign minister, called for suspending the Gaza disengagement, set for mid-August, if Hamas wins control of the PLC. But other ministers slapped him down, one saying that such remarks strengthen the Islamists.

Many Gazans agree. “It's a free election campaign for them,” says Mohammed al-Masri, the Fatah ex-mayor of Beit Lahiya, where Hamas won a narrow majority last week. In fact, the local and national are quite different political spheres. Locally, Hamas campaigns as the party of social welfare and non-corruption, and its slogan that “Islam is the solution” or its support for armed resistance are secondary. Character or local standing often matter more than party colours.

The PLC election, however, will depend on how badly the PA, and by association Fatah, is doing. Reforms since Arafat's death have so far produced few visible effects besides the exit of a few of his cronies, and Israel is dragging its feet on concessions such as releasing prisoners, as it promised in February. Hamas has no chance of taking over the government. Most Palestinians, polls say, want a secular state. But they may give Hamas a big say in parliament if the PA has made no progress, or Israel does not dangle a few carrots.

Fatah itself has been scared into some sort of action. It adopted a fairer method of selecting candidates: internal

nominations, followed by opinion polls to pick the most electable. But it is still making mistakes, says Mr al-Masri, such as failing to reach out to women as Hamas does. Some Fatah leaders argue that Hamas's appeal will wane because, by moderating its position and joining the political system, it will end up looking like its opponent. Yet Fatah policies in a fresher, cleaner package may be just what people want.

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Training Iraq's police

What they need is gender sensitivity

May 12th 2005 | ZUBAYR
From The Economist print edition

Police cadets learn human-rights law, but not how to deal with suicide bombers

IN LESSON 29 of Iraq's police training manual, entitled “Women in Law Enforcement”, are some arresting details. According to the Cincinnati police department, between 1999 and 2000 “male officers cost two and a half times more than female officers in terms of excessive force payments, accounting for 92.3% of the dollars spent when payments from wrongful death are examined as a sub-category of excessive force.” Iraqi police are not known to make such payments, and include almost no women. But should this change, the lesson will no doubt be invaluable.

That Iraqi police need training, no one doubts. Over the past year, about 100 have been murdered each month. Many more have fled their posts—including, last November, almost Mosul's entire force of 8,000, some of whom joined the insurgents. While Iraq's nascent army is being guided through similar problems by a multitude of American “advisers”, the police, corrupt, incompetent and under-equipped, are largely going it alone.

Yet some of their foreign trainers—including American and British coppers—question the usefulness of the current scheme. An eight-week training course is taught at seven academies in Iraq and nearby Jordan, and is supposed to include an array of basic police skills. In reality, according to British policemen manning an academy at Zubayr, in southern Iraq, the course consists of one week of target practice (at which the average cadet performs execrably), one week of unarmed combat (including with batons, which Iraqi police do not use), and six weeks of absurdly complex instruction—through translation—on human rights.

“Less than 1% of the course is relevant,” says a British instructor. The training manual offers no advice on dealing with car bombs, grenade attacks or Muslim fanatics. And what practical tips it does offer may be misplaced. In lesson 11, “Trafficking in Persons”, Iraqi recruits are told to “encourage the [trafficked] woman to talk about how this has made her feel about herself and reassure her that she is still worth as much as any other person.” Yet there is no such trafficking in Iraq. The passage has been lifted from a manual for the Balkans, where many Iraqi policemen would no doubt rather be.

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Nigeria

Guns, boats and oil

May 12th 2005 | PORT HARCOURT
From The Economist print edition

A rotten army cannot keep the peace

SEVEN years ago, Nigeria's nastiest military dictator, Sani Abacha, died of a heart attack that was dubbed the "coup from heaven". An election followed, and Nigeria is now enjoying its longest spell of civilian rule since independence in 1960. President Olusegun Obasanjo has done his best to make coups a thing of the past, purging the army of politicised officers and pampering the Brigade of Guards, which sits behind the presidential villa. Mr Obasanjo's grip on Nigeria's spooks has kept him ahead of coup plotters: an alleged assassination attempt last year was foiled before the plotters could procure the missile to shoot down his helicopter.

Yet Nigerians still fear for their country's stability. Victor Malu, a retired general, said in March that Nigeria was "sitting on a powderkeg". Ethnic and religious strife, usually stoked by politicians, has claimed thousands of lives since Mr Obasanjo took office in 1999. The security forces, despite training by American contractors, are simply not professional enough to quell it. Recent events in the oil-rich Niger Delta illuminate the problem.

In September last year, a bandana-wearing, speedboat-driving, Kalashnikov-toting gentleman called Mujahid Dokubo-Asari threatened "all-out war" on the Nigerian state if his ethnic kin, the Ijaws, were not given more of the profits from pumping oil out of their homeland. Mr Asari, the son of a judge and proud descendant of Ijaw slave traders, commands a militia force of unknown strength but proven ability to cause mayhem.

Since late 2003, fighting between Mr Asari's men and those of a rival militia has cost hundreds of lives and caused tens of thousands of people to flee their homes. Mr Asari's men have fought battles not only in the mangrove swamps but also, brazenly, in the streets of Port Harcourt, the biggest oil town. The police have tended to run away, since they "don't have the firepower in comparison to the militia," as a police commissioner told Human Rights Watch, a pressure group.

Mr Asari's pose as the champion of an oppressed people strikes some observers as risible. Most of his victims have been Ijaws. And if he really plans to share the oil wealth more fairly, that would be a radical innovation. The Delta's villagers are among the poorest in Nigeria, though its governors are probably the richest. Although Mr Asari allegedly first rose to prominence as an enforcer for a state governor, he now draws his strength from public anger at the government's failure to reverse decades of neglect. For the Delta's legions of jobless youths, joining a militia such as Mr Asari's can provide both a pocketful of cash and a sense of purpose.

President Obasanjo has tried to defuse matters. In October, he brokered a ceasefire between Mr Asari and his main rival, a militia boss called Ateke Tom. Both groups have surrendered some guns in exchange for generous compensation. Mr Asari now lives in a spacious two-storey villa in Port Harcourt and swans around in a leather-lined Lincoln Navigator.

Putting out fire with gasoline

Rewarding thuggery is perhaps not the best way to curb it. Mr Asari has not stopped talking about his “armed struggle” for an Ijaw nation. He boasts that he can buy better weapons with the money he received for the old ones. Most worryingly for the government, he retains the ability to disrupt the oil industry.

“This is an example of how you turn off a flow station,” Mr Asari told journalists on a visit to the twisted wreckage of a pipeline near the town of Bukuma. That pipe was abandoned years ago, but Mr Asari's message is clear.

Given the Delta's maze of creeks, it only takes a few dozen fighters to inflict serious damage. Mr Asari used to brag about stealing oil (oil that rightfully belonged to the Ijaws, he said). Now he claims to earn his living as a private security contractor. The big oil firms all deny hiring him, but sub-contractors escorted by police were seen last year begging his “permission” to operate near one of his hideouts.

The oil companies are in a sticky position. Shell and ChevronTexaco have publicly committed to ending unorthodox payments. But one Shell contractor said he still faced pressure to meet production deadlines, which meant somehow dealing with threats to disrupt the flow of oil. “We may not want to, but we do what is necessary,” he said.

The army is supposed to protect oil firms, but its soldiers have an inflammatory habit of shooting people and razing villages. For example, in February, after militants killed 12 people in a dispute over a patch of land being surveyed for oil, the army launched a punitive raid on a town called Odioma, killing 16 people and destroying hundreds of homes. Such tactics help the militants recruit. At a recent rally, Mr Asari told locals that they might as well join his movement since the government would “victimise” them anyway.

The security forces are further compromised by the fact that some officers are no better than the gangsters they are supposed to be crushing. In January, two admirals were convicted of abetting the disappearance of a tanker carrying stolen oil. And your correspondent recently watched men unloading three barges of illicit petroleum condensate, only a few paces from a military outpost. No one stopped them.

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Africa's most wanted man

Global law v local warlord

May 12th 2005 | LAGOS
From The Economist print edition

Nigeria is under pressure to extradite Charles Taylor

AFP

Charles Taylor's legacy

HE IS perhaps the vilest living African, but Nigeria had good cause to grant Charles Taylor sanctuary in 2003. In August that year, Mr Taylor was still the president of Liberia, but besieged in his capital by two separate rebel armies. To avoid a bloodbath, Nigeria's president, Olusegun Obasanjo, offered him refuge on condition that he came quietly and ceased to involve himself in politics.

Liberia, a small West African state with a long history of carnage, is now relatively calm, thanks to 15,000 UN peacekeepers. Its transitional government, though corrupt, is nowhere near as bad as Mr Taylor's crooked and murderous regime was. Elections are due in October. Mr Taylor now lives in a luxurious villa in the eastern Nigerian city of Calabar. But for how long?

Mr Taylor faces 17 charges of crimes against humanity and similar offences, not for what he did to his homeland, but for the horrors he inflicted on its neighbour, Sierra Leone. A UN-backed tribunal there accuses him of fomenting Sierra Leone's brutal civil war in order to loot its diamonds, thereby causing tens of thousands of deaths. It wants Nigeria to extradite him.

Mr Obasanjo, understandably, does not want to be seen to break his word. But the court's chief prosecutor, David Crane, argues that his obligation to Mr Taylor is over because Mr Taylor has broken the terms of his asylum. Last month Mr Crane accused Mr Taylor of having been behind an attempt to assassinate Guinea's president, Lansana Conté (an old enemy) in January. Confidential court documents also concluded that Mr Taylor is plotting to topple the government of Côte d'Ivoire, whose president is another of his enemies, and that he slipped past his guards to meet collaborators in Burkina Faso in February.

Nigeria has so far said that it will only surrender Mr Taylor to an elected Liberian government. But on May 10th, the United States Senate backed a resolution urging the Nigerians to hand him promptly over to the court in Sierra Leone. The American government dislikes Mr Taylor not only for the obvious reasons, but also because he trained as a guerrilla in Libya and is believed to have laundered Sierra Leonean diamonds through al-Qaeda. Nigeria is keen not to annoy America, since it is lobbying for debt relief. Nigerian papers report that security has been stepped up around Mr Taylor's villa.

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India

One less year

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AFP

After a year back in power, the Congress party is still working out how to use it

Get article background

WHEN, much to everyone's surprise, including its own, a coalition led by the Congress party won an election in India a year ago, two big questions arose over its prospects in government. One was whether Congress could manage an amicable division of powers between its leader, Sonia Gandhi, and the unelected technocrat in whose favour she renounced the job of prime minister, Manmohan Singh (pictured in technocratic pose above). The second was whether, in managing an unwieldy and disparate coalition, it could get much done. As Mr Singh prepares to mark one year in office, his relations with Mrs Gandhi, despite constant rumours to the contrary, seem fine. It is the second question that is still open.

He is in charge of policy and, in theory, the government. She heads the coalition, the United Progressive Alliance (UPA), and handles the politics. Their bonhomie, however, has not been tested in the heat of a fierce political battle. Instead, policy has been tailored to the need to find consensus between reformists and their opponents. Mr Singh himself, as finance minister in 1991, was the architect of the liberalisation and deregulation of the economy. But his coalition includes many who remain at best suspicious of reform, and, in order to secure a parliamentary majority, it relies on the votes of Communist parties, which are by and large hostile. Both extremes feel let down.

Reform has been piecemeal and half-hearted. To the relief of the markets, so too has promotion of the grand public-spending schemes pushed by the left.

The government has had three big things going for it. The first is the wave of goodwill that followed Mrs Gandhi's act of renunciation and appointment of Mr Singh—a man of unquestioned integrity, decency and economic expertise. Second has been the booming economy it inherited, which is still growing at more than 6% a year. Third has been a shambolic opposition. The Bharatiya Janata Party (BJP), which led the previous government, was as shocked by electoral defeat as Congress was by victory. But it has taken longer to recover. It has allowed itself to become preoccupied with internal bickering, and has petulantly boycotted parliament.

One upshot, though, is that the Communist parties have come to resemble not so much the government's partners as the official opposition. From this vantage point they have resisted most moves to privatise state enterprises or ease curbs on foreign investment. Just this week, they demanded the amendment of a law that will establish “special economic zones”, modelled on those that helped kickstart China's modernisation 25 years ago. They forced the removal of a provision that would have given state governments the right to exempt these zones from India's restrictive labour laws. Liberalising reform has tended to be limited to decisions that can be effected by executive action—such as raising the “cap” on foreign investment in telecommunications. Measures that would require legislation, such as repeating this trick in insurance, remain simply impossible.

But there is just as much disgruntlement on the left. Last year's election upset, against the backdrop of a buoyant economy and booming information-technology industry, was widely interpreted as a cry of pain from the neglected countryside, where 70% of India's people live, many of them in dire poverty. Much of the “common minimum programme” the UPA adopted was a promise to tackle their plight.

In particular, there was a commitment to the “immediate” enactment of a nationwide “employment-guarantee act”, which would offer casual labour to anybody willing to do it at the minimum wage. Its proponents argue this would make a huge onslaught on poverty, reduce migration to the towns, help improve India's woeful infrastructure and foster a fairer social order. Its critics, who include many members of the government, believe it would be a gigantic waste of public funds, which would be siphoned off by corrupt officials paying ghost workers to build phantom projects. Rather than scrap the scheme, the government has diluted it to the point of uselessness. On May 13th, supporters of the act are to go on the road with a campaign for a fuller-fledged job-security law.

Congress officials boast of the skill with which it has navigated the shoals of coalition politics. It has at least avoided doing anything very silly and has established a reputation for competence—remember, they ask, the stockmarket crash that followed its victory? A year ago the party seemed in almost terminal decline; but now, once again, it appears the most obvious party of government. If it faces a threat to surviving its full five-year term, this comes less from the BJP than from the remote prospect of a “third front” cobbled together by the smaller parties.

All in all, they say, a good, steady beginning, building a solid platform for the years to come. The government has identified the right priorities, from the “right to information” act passed by parliament's lower house on May 11th, to investing in primary education and rural infrastructure, to stemming an epidemic of AIDS that outside experts believe is out of control. All that remains is to raise resources and implement its programme.

There are two problems with this argument. The first is that it is unlikely in the rest of its term to face as benign a political and economic environment in which to make difficult decisions. Next year sees elections in the states of West Bengal and Kerala, which will pit Congress locally against the Communists it relies on at the centre. That will make contentious decisions even harder. By 2007, it will already have its eyes on re-election, which tends to make governments timid. The second problem is the urgency of India's needs. Nearly half of its children are malnourished; by the official count, more than 5m people are HIV-positive. India needs a government that is in a hurry.

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About sponsorship

Australia

Days of open hand

May 12th 2005 | CANBERRA
From The Economist print edition

But more rigour is needed

Get article background

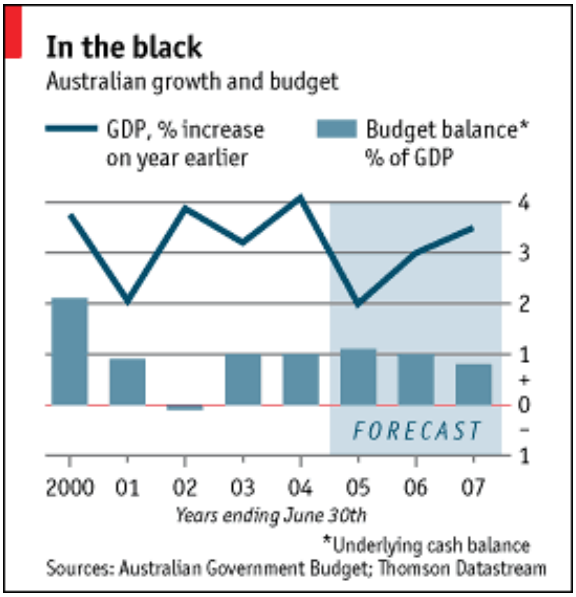
THERE was a note of triumphalism to Peter Costello, Australia's treasurer (finance minister), after he delivered his tenth budget on May 10th. Its centrepiece, income tax cuts worth almost A$22 billion ($17 billion), was more sweeping than anyone had imagined. “Framed for the future” was how Mr Costello described his budget. The campaign that broke out a few days earlier to take the leadership of the ruling Liberal Party from John Howard, the prime minister, suggested that Mr Costello had also framed what could well be his last budget with his own future in mind.

He was already under pressure to honour some A$60 billion worth of promises the conservative coalition government had spent winning its fourth election last October, without sending the budget into deficit. Thanks to surging revenues, driven by booming coal and iron-ore sales to China, Mr Costello is projecting a fiscal surplus of A $7.4 billion for the 2005-06 financial year.

This impressive outcome, though, was overshadowed by political tensions. In late April, on his way home from a visit to China, Japan and Turkey, Mr Howard boasted to journalists in Athens that he “was not planning on going anywhere”, and that he could beat Kim Beazley, leader of the opposition Labor Party, at the next election due in 2007.

The remarks took the Liberal Party by surprise. Some had expected that Mr Howard, who turns 66 in July, would round off his triumph as one of Australia's most successful political leaders by handing over the leadership to Mr Costello, his younger heir apparent, during his fourth term. They infuriated Mr Costello who, until now, has contained his frustrations well. Privately, he called the “Athens declaration”, as the media dubbed Mr Howard's remarks, an “unprovoked missile”. Publicly, he said the Liberal Party needs an orderly transition of leadership. As the row escalated on his return home, Mr Howard said his remarks had been misinterpreted; few believed him. Mr Costello's supporters say they expect a transition to happen by next March, when Mr Howard will have chalked up a decade as prime minister.

Inevitably, the hints of a looming leadership struggle had observers looking for signs that Mr Costello had decided to pitch the budget at voters as much as the market. There were plenty. The tax cuts, following another A$15 billion worth of tax cuts last year, were on a scale that might be expected in the last budget before an election rather than the first one after. All taxpayers, especially high-earners, will pay less: the starting point for the top tax rate of 47%, now A$70,000, will rise to A$125,000 from July 2006. Mr Costello says the changes will leave 80% of taxpayers paying no more than 30% tax on their income.



Practically the only groups the budget squeezed were single parents and disabled people receiving welfare; the latter group, mainly “bad back” sufferers, has risen by one-fifth over five years. Both groups will now face tougher rules obliging them to take part-time work, pushing an estimated 190,000 of them off welfare into jobs.

The budget's popularity was not universal. Business leaders have been pressing the government for a fresh wave of economic reform as it prepares to take control in July for the first time of the once-obstructionist Senate, the upper house of parliament. Yet the budget offered few hints of such an agenda. Peter Hendy, chief executive of the Australian Chamber of Commerce and Industry, said it was a lost opportunity to overhaul tax disincentives that still hinder business. Some economists worry that the tax cuts are unwisely timed: they could fuel inflation, encouraging the central bank to raise interest rates. Mr Costello may have created a flourish as he plots his next political move; but whoever casts next year's budget may not find the going so easy.

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Mining in China

Going under

May 12th 2005 | DATONG
From The Economist print edition

But there's always tourism

“WELCOME you men of insight who care [about] coal undertakings,” says a sign in English at the bottom of a 300-metre shaft at the Jinhuagong Coal Mine. It is a more encouraging notice than the ones above ground which offer, in alarmingly ill-chosen English, “underground explosion travelling” (the Chinese more reassuringly offers a “tourist area for underground exploration”). China's mines have the world's highest death rate, but at Jinhuagong—a large state-owned mine near the city of Datong—thrill-seeking tourists can take a 5km (3 mile) round trip through the tunnels to a disused section where a guide shows off how much has been invested in safety. It would be more convincing if he told visitors first how to use their gas masks.

Jinhuagong began its foray into tourism a couple of years ago in order to lure in some of the traffic that brings thousands of foreigners annually to the nearby Yungang Grottoes, one of China's greatest monuments, boasting Buddhist temple art from the fifth and sixth centuries. It has not been an outstanding success. On the day of your correspondent's trip, the 15 staff at the mine's tourism centre had only two visitors to look after. But for the coal-mining city of Datong, 260km west of Beijing, finding new ways of attracting tourists is a pressing concern. With readily extractable coal reserves fast running out, Datong's days as the country's biggest producer may be numbered.

By 2010, according to some experts, many of Datong's mines will have to start closing down unless they deploy expensive technologies to dig deeper for lower-quality coal. For a city of more than 3m people of whom many depend on the mines, this is a big worry. Official figures say that coal-related industries account for between a third and half of the city's GDP.

On paper at least, Datong is still doing fine. Last year its GDP grew by 14%, compared with 9.5% for China as a whole. But few are celebrating. Much of Datong's growth has been attributable to the price of coal, which has risen by 40% in the past year. This has been great news for operators of the many small privately run coal mines on the bare hills around Datong, which spend little on equipment or safety. For the big state-owned mines, the increases have only allowed them to break even, or make small profits.

Datong's vulnerability to the market was evident in 1999, when a several-year run of high prices ended and output slumped. And for all the relatively good times recently, urban unemployment in Datong reached 9.6% in 2002, more than twice the national rate. All but the small private mines (which prefer cheap peasant labour from other regions) have been shedding staff; 100,000 jobs have gone in the past decade. Some 47,000 of Datong's miners live on the poverty line, according to the *People's Daily*.

Datong is not alone. Of 118 cities in China whose economies depend mainly on natural resources, some 30 are running out of supply. A survey in 2000 found six had unemployment rates of over 20%. A government team recently concluded that the exhaustion of resources in China's mining cities posed “far more complex and serious problems” than those experienced by similar cities in countries like Russia, France, Germany or Japan. Protesters blocking bridges and roads, and staging sit-ins and other kinds of demonstration had become common sights in these cities, it said: the residents of Datong quite agree. With its famous cultural relics, if not its more adventurous tourism scheme, Datong at least has a lifeline.

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Vietnam

Three's a crowd

May 12th 2005 | HANOI
From The Economist print edition

But the two-child policy is failing

AT ALMOST 230 people per square kilometre (600 per square mile), Vietnam has twice the population density of China. That is a fact that has its policymakers worried, not least because they may inadvertently have signalled that the country's two-child policy was over.

In May 2003 the government passed an Ordinance on Population that supposedly brought the country into line with a declaration issued by a UN-backed conference on population and development held in Cairo in 1994 and signed by 179 nations, including Vietnam. This stated, among other things, that people have the “basic right” to decide when to have children and how many to have. No change there, says Vietnam's Committee for Population, Family and Children (NCPFC), which for years has presided over a population policy in which choice was officially allowed—but not encouraged. Yet it seems that people took the government at its word. Nine-and-a-bit months after the ordinance was passed, third children started popping out all over Vietnam, with a jump of 3% in the number of third-child births being recorded in the first half of 2004.

In the past such families may not have been officially punished, but state employees (of whom there are many) tended suddenly to find promotions and bonuses hard to come by. The government believed these tactics to be tough in a good cause, and effective. From 1989 to 2002 Vietnam's total fertility rate declined from 3.8 to 2.3.

But with a growing class of people in Vietnam now earning a comfortable living in private employment, such policies have less and less impact. The sudden spike in three-child families has seen the retired NCPFC director, Professor Mai Ky, call for fines to be imposed on offending families and arguing that rapid population growth could undermine Vietnam's decade of economic growth.

Already, Vietnam needs to create 1.5m jobs a year just to absorb new entrants into its labour market. Urban unemployment is estimated at over 7%, while in rural areas people only work around 60-70% of the time they have available for labour.

Officials fear the country may exceed its target of 88m inhabitants in 2010 and of 120m by the middle of the century. With the population already shooting above 82m that seems increasingly likely. Nguyen Van Tan, the NCPFC spokesman, blames the desire of couples to produce a male heir for undermining the government policy. “People want a son and we have to struggle with that, so the government has requested that first of all party members and government officials have smaller families as an example for others.” Unfortunately, he concedes, government officials are among the worst offenders.

The controversy has led the UN to conduct an independent review of the fertility data and urge everyone involved to calm down. Its representative in Vietnam, Ian Howie, says data over the past three years show fluctuation but do not change the overall downward trend.

This argument, however, does not appear to have done much to reassure the Politburo. A few weeks ago, it announced that carrying out the two-child policy was the obligation of every citizen and called for the Ordinance on Population not to mention “other inappropriate policies” to be revised.

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Cambodia

The earning fields

May 12th 2005 | PHNOM PENH
From The Economist print edition

The government outrages survivors

Getty Images

Where the horror happened

Get article background

TWENTY-SIX years ago a Cambodian farmer named Neang Say stumbled upon the Killing Fields. A terrible stench led him to a series of mass graves near his village, Choeung Ek. Between 1975 and 1979, when the Khmers Rouges brutally ruled Cambodia, this was the main execution and disposal site for the condemned inmates of Tuol Sleng—Pol Pot's most notorious prison.

The Choeung Ek memorial on the outskirts of the capital Phnom Penh is now one of the world's most moving sites, regularly attended by Buddhist monks who pray for the souls of the thousands of dead. That it should suddenly be privatised and handed over to a Cambodian-Japanese joint venture has shocked many Cambodians. In a rare show of unity, all Cambodian newspapers have condemned the deal, under which the site is to be handed over to JC Royal, which has been awarded a 30-year management lease to upgrade it while pledging to preserve its mass graves.

Chea Vandeth, the chief secretary of the cabinet, insists that all these fears are unfounded. The 51% Cambodian-owned company will turn over all profits from the gravesite to charity—or rather, one specific charity, the government-run “Sun Fund”. In general, there is, of course, much to be said in favour of privatisation. But this one is troubling. The cabinet chief apparently does not see any contradiction in his multiple roles as the chairman of JC Royal and as the secretary-general of the obscure Sun Fund. Sun Fund is not registered and has no office.

The unease in Cambodia follows a recent selling binge of public assets, in one case granting the right to charge entrance fees to Cambodia's legendary Angkor Wat. Another case is the demolition of a much-loved riverfront colonial villa that had been on Phnom Penh's heritage list of buildings to be preserved. With the nation's main growth sectors being tourism and corruption, trust in government's handling of the nation's patrimony is not very high.

If any profits are made from the dead, the government claims the Sun Fund will use the money to send Cambodian students on scholarships to Japan. To many survivors of the Pol Pot nightmare, however, another bad smell is drifting from the Killing Fields.

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Bhutan

The good king, bad king routine

May 12th 2005 | THIMPU
From The Economist print edition

Bhutan's king is loosening his grip as Nepal's tightens his

Reuters

Bhutan's royal reformer

THE king of Bhutan, one of the world's last absolute monarchs, at last published his country's draft constitution in March. King Jigme Singye Wangchuk, a reincarnation of a Buddhist saint, has been quietly working on a constitution for his Himalayan kingdom since he first devolved power to an elected government in 1998. The document allows freedom of thought and speech (until it is law, you can still technically be locked up for criticising the king); a two-party electoral system, and a mandatory retirement age for the monarch of 65: the king is 49. The king can declare a state of emergency, if it is endorsed by two-thirds of the National Assembly, but his person remains sacrosanct and he is above the law.

All this comes at a sensitive time for Bhutan. True, his next-door neighbour, King Gyanendra of Nepal, tentatively lifted the state of emergency a fortnight ago. He had imposed it in February, sacking his government, suspending his own constitution with the outside world, the better to deal with the Maoist rebels who now control over a third of his country. But Nepal's most recent move seems less a step back to constitutional monarchy than a way to get Britain and India to resume the arms sales they suspended after his coup.

In his office in Bhutan's capital, Thimpu, a government official says firmly that there will be no ripple effect from Nepal. “Our king has always been selfless.” But his unease was as obvious as the thermal long johns sticking out beneath his assistant's *gho* (the knee-length compulsory national dress, a stripy dressing-gown which Bhutanese men complain is very draughty).

“The government is terrified of the chaos in Nepal,” says one development worker, who knows Bhutan. Privately Bhutanese officials agree: more than 100,000 ethnic Nepalese refugees from Bhutan have been in camps in Nepal, since they or their parents fled a bloody reaction to their attempts to have some recognition of their rights. Their property has been largely redistributed to Bhutanese.

A few years ago the very idea of constitutional monarchy (along with Coca-Cola) would have been unknown to most of the 700,000 or so people in Bhutan: they were completely cut off from the outside world. Even after the Indian prime minister trekked for a month over the Himalayas to make a treaty in 1958 (eight years after China invaded neighbouring Tibet), Bhutan kept outside contact to a minimum: roads were built, but television was forbidden and foreign travellers heavily discouraged. But as the internet, not to mention illegal satellite TV, made isolation impossible, the king decided that change should come from him. In the last few years, he may have banned smoking in public, but even before the constitution was published he had set up a National Assembly with

universal suffrage, and opened Bhutan to foreign travellers (rich ones, paying $200 a day, not broke backpackers as in neighbouring Nepal) and the weird world of cable broadcasting.

So far it seems to have paid off. Opposition is hard to find. Thimpu feels like a public-school campus: they may not like their uniform, but they all still wear it. Men and women wander about in national costume, black shoes and coloured scarves denoting rank, all worn the same way; just the odd cigarette packet turns up behind a bush.

Complaints on the website of *Kuensel*, the country's only newspaper, focus largely on a recent crime wave, and the fact that most of the businesses raking money in from Bhutan's new tourism are owned by people connected with the king or the four sisters he married as his queens. Reaction to the new constitution is also largely positive. Even the critics are at pains to reiterate their loyalty. “It has loopholes. Let's remember that we have a good king now but we should think for posterity,” says one. In the assembly the most vocal opposition is against any reforms. “The world wanted democracy in Nepal. I don't know if Nepal wanted it,” says the editor of *Kuensel*. “They've had 11 governments in 14 years. I like the idea of democracy, but at a manageable pace.”

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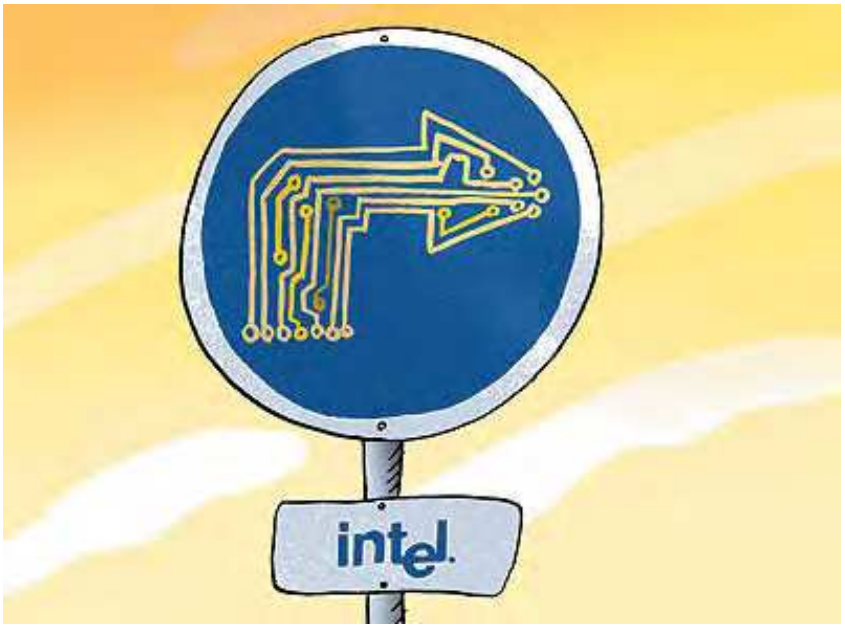
Chipmaking

Intel's right-hand turn

May 12th 2005
From The Economist print edition



As Paul Otellini prepares to take charge at Intel next week, is the giant chipmaker heading in the right direction?

WHEN it was confirmed last November that Intel's new boss would be Paul Otellini, the firm's chief operating officer and heir apparent for several years, nobody was surprised. The firm's succession-planning is famed for being as clean and efficient as the factories where it makes its chips, and Craig Barrett, the retiring chief executive, who steps down on May 18th, has long seen Mr Otellini as his right-hand man. But Mr Otellini is Intel's right-hand man in another sense, too. For he is the architect of the firm's new strategy—a change of direction that Mr Otellini calls a “right-hand turn”. The world's largest chipmaker now faces three big challenges—but Mr Otellini believes his plan can address all of them at once. Is he right?

The first challenge is technical. For years, Intel has consistently improved the performance of its chips by making them run at higher and higher clock speeds (measured in MHz or GHz). But it has now hit a wall. As chips get faster, they consume more power and generate more heat. It also becomes harder to keep all the parts of a chip marching in step.

Intel, along with its rivals, is embracing a new approach to chip design, in which performance is improved not through higher clock speeds, but by adding further processing “cores” to its existing chips. A “dual-core” chip can,

at least in theory, deliver twice the number-crunching performance of a single-core chip, but at the same clock speed. In practice, the software on the chip must be rewritten to exploit multiple cores, but such software is becoming increasingly common.

The second challenge is that the personal computer (PC) market has matured. Intel still makes most of its money selling the processor chips at the heart of PCs. Mr Otellini's predecessors, who ran the firm when the PC was in the ascendant, could rely on an expanding market to provide double-digit growth for Intel. Mr Otellini cannot, and must find new sources of growth, in the PC market and beyond it.

The third challenge is the growing competitiveness of Intel's main rival, Advanced Micro Devices (AMD). In recent months Intel has suffered a string of embarrassments, some self-inflicted (such as the cancellation or delay of several new products), but others at the hands of AMD. Notably, AMD devised a clever way to enable chips to handle data in both 32-bit and 64-bit chunks, which improves their performance. Having spent years developing an entirely new 64-bit chip, Itanium, Intel was loth to undermine its prospects by adding 64-bit support to its 32-bit Pentium and Xeon chips. But last year it did just that, to remain competitive with AMD. As a result, Itanium is probably doomed.

Mr Otellini's response to all of these challenges is the “right-hand turn”. First, Intel must change how it designs chips. As well as switching to a dual-core (and then multi-core) approach, the firm is starting to integrate other functions, such as security and networking features, on to its chips.

That points the way to the second part of Mr Otellini's plan: “platformisation”. Rather than just selling processing chips to PC-makers, Intel intends to offer them entire “platforms”—bundles consisting of a processor, its ancillary chips and networking components, and the software needed to tie them all together. By doing this, Intel hopes to sell more components, thereby taking a larger cut of the selling price of each PC. It also hopes to boost demand by devising specific platforms for several promising new markets, such as home entertainment, mobile devices and health care.

This strategy, it hopes, will also enable Intel to outflank its rivals, which specialise in particular kinds of chips, such as processors (as in the case of AMD) or networking (Broadcom). PC-makers, goes the theory, would rather buy a single integrated package from Intel than assemble components from several other suppliers.

A man with a plan

This all sounds good in theory. But will it work in practice? When asked, Intel executives invariably cite the success of Centrino, the firm's laptop platform, which combines a processor with a Wi-Fi networking chip, software and other supporting components. Centrino, launched in 2003, is the model for how Intel intends to sell chips in future. Rather than ask for “Intel inside”, laptop buyers can now demand “Centrino inside”. This encourages PC-makers to buy the entire platform.

Intel is now working on two similar platforms for home and office desktop machines, nicknamed “Desktrino”, due to be launched later this year. In January Mr Otellini reorganised Intel into platform-specific divisions, including digital home (for consumer PCs), corporate (business PCs and servers), mobility (laptops and mobile devices) and health care, which Intel regards as a promising new market.

Intel faces the challenges not just of designing chips in new ways, but of selling them in new ways too

Will it work? Consider Centrino. When it was launched, several laptop-makers initially turned their noses up at Intel's Wi-Fi chip, and decided to buy only Intel's laptop processor chip, which they combined with Wi-Fi chips bought from other vendors. Only when Intel's Wi-Fi chip came up to scratch did laptop-makers opt for the whole Centrino package. “It took a while for the Centrino model to work,” says Dean McCarron of Mercury Research, a market-research firm. The platform model will only succeed, he says, if all the components are competitive in their own right.

While Intel has a good chance of getting the platform model to work in desktop PCs, breaking into new markets may prove much harder. Intel has yet to make any headway in the mobile-phone market; indeed, merging its laptop and mobile businesses into a single “mobility” division means that continuing losses in communications chips are helpfully obscured by the bumper profits from Centrino. Its prowess in processors is unquestioned, but Intel is

still to prove itself when it comes to radio chips. It must do so if it is to realise its high hopes for new markets such as smartphones and wireless broadband (Intel is the main cheerleader for WiMax, a new wireless broadband technology). “They don't have a significant technological advantage over the incumbents in the cell-phone business,” says Kevin Krewell of *Microprocessor Report*, an industry journal. “Until they come up with something truly unique, they're just going to be a me-too player.”

There are other worries too. Dell, the world's top PC-maker and one of Intel's closest allies, has hitherto chosen not to use AMD's chips. But Kevin Rollins, Dell's chief executive, admitted in February that his firm came close to changing its mind last year, following product delays and other problems at Intel. Dell is careful never to rule out abandoning its Intel-only policy. If Dell ever changes its mind, Intel's market share in PC processors, which has exceeded 80% for years, could come under threat. Intel rewards Dell and other PC-makers with generous discounts, in the form of marketing subsidies, to keep them loyal. Dirk Meyer, the number two at AMD, says that Intel has a “stranglehold” over PC-makers. He points out that Japanese antitrust regulators recently ruled that Intel's business practices in that country, which are similar to those used elsewhere, were unfair. Mr Krewell, however, says that Intel had worse practices in the past, and has cleaned up its act.

As Mr Otellini takes the helm, Intel is already starting to move in the direction he has charted. The origins of the new strategy can be traced back to a speech he made in late 2001. Since then he has been gently steering the firm into its right-hand turn. He is the first boss of Intel to have a business and marketing rather than a technical background (though, as a 31-year veteran at the firm, he is hardly a technological novice). As Intel faces the challenges not just of designing chips in new ways, but of selling them in new ways too, Mr Otellini would seem to be the right man for the job. He has mapped out where he wants to take the company: now he must get it there.

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Business and climate change

Feeling the heat

May 12th 2005 | NEW YORK
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American bosses are starting to take global warming seriously

IT COULD have been some evangelical mega-church in red-state America. The faithful gazed fixedly at the pulpit. Devotees of special merit were pointed out and applauded. An expansive southerner stepped up, cried “God bless ya!” and launched into a rip-roaring sermon on the morality of... global warming.

In fact, the preacher was Al Gore, the church a hall in the United Nations building in New York, and the service a conference on May 10th organised by CERES, a coalition of investors and greens, to enlighten Wall Street about climate change. Among the greens, the scientists and the (British) carbon financiers, was a less predictable figure: Jim Rogers, head of Cinergy, a big mid-western producer of coal-fired power. News had just broken that Cinergy is to be taken over by Duke, a southern utility. Yet somehow he made the time to turn up and deliver a speech.

Mr Rogers's job is secure. But surely he had better things to do at such a big moment for his firm than give a speech on greenery? On the contrary, he insists: climate change, far from being peripheral, goes to the heart of the Duke-Cinergy deal.

There are some conventional business rationales for the deal. It will bring larger scale, geographical and fuel diversity, and save $400m in costs. And, coming in the wake of nuclear-power giant Exelon's purchase of PSEG, a New Jersey energy firm, it may be part of a trend. Vance Scott of A.T. Kearney, a consultancy, expects a wave of consolidations among utilities.

Yet Mr Rogers adds a key motivation: both he and Paul Anderson, Duke's boss, believe that government policies “will inevitably lead to a carbon-constrained world.” Cinergy has many old and dirty coal plants, which emit vast amounts of carbon. The deal will help him retire many of them sooner, in favour of Duke's clean natural-gas plants. He even dares to talk of new nuclear plants, emitting no carbon, which Cinergy could never have afforded but which the combined firm might build.

Just guff drummed up to please the carbon crowd? A.T. Kearney's Mr Scott argues not: Cinergy's exposure to possible carbon regulation of its coal plants will be hedged by the addition of Duke's gas plants; Duke, hit by the volatility and recent spikes of natural-gas prices, will benefit from relatively lower and more stable coal prices.

Mr Rogers was not the only unlikely corporate figure to tackle carbon this week: so did Jeff Immelt, boss of GE. In a speech in Washington, D.C., on May 9th, he committed GE to a set of green goals going far beyond any current government regulations. He vowed that by 2012 GE would boost its energy efficiency by 30%, and cut its greenhouse-gas emissions from over 40% above today's level if nothing is done, to 1% below. By 2010, he said, GE would double its annual investment in clean technology to $1.5 billion.

Mr Immelt denounced America's “do-nothing” policy on climate change: “We are living in a carbon-constrained world where the amount of CO_2 must be reduced.” The Bush administration has challenged whether CO_2 can even be regulated as a pollutant, and opposes mandatory carbon caps. Bemoaning the resulting uncertainty for investors, Mr Immelt concluded: “America is the leading consumer of energy. However, we are not the technical leader. Europe today is the major force for environmental innovation.”

The current American policy may prove bad for the energy industry, Mr Gore told his gathered faithful. Pointing to Big Tobacco, he argued that Big Oil could go the same way. Oilmen may think CERES a fringe group. But its coalition includes such heavyweights as CalPERS, California's huge public-employees' pension fund, and represents over $3 trillion in invested capital. CERES members have already brought shareholder resolutions against various oil firms. They also have their sights set on big energy users and greenhouse-gas emitters across the board: cement and construction, aluminium and steel, agri-business and more. A recent report on brand value from Britain's Carbon Trust, a public-private outfit, says that as oil firms make most of their profit upstream, airlines—more exposed to the general public—may be at greater risk of losing brand value to global-warming activism.

Should American firms wait for government action, or follow this week's trailblazers? GE's boss put it this way: “We are investing in environmentally cleaner technology because we believe it will increase our revenue, our value and our profits... Not because it is trendy or moral, but because it will accelerate our growth and make us more competitive.”

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Extraditing executives

The long arm of American law

May 12th 2005
From The Economist print edition

America wants to bring foreign businessmen to justice

AFTER cracking down on white-collar crime at home, America is now in hot pursuit of executives abroad who, it thinks, have done wrong—and Britain seems happy to help. In what American officials call a “very important” test case that could have serious repercussions for other British executives, Ian Norris, a former boss of Morgan Crucible, a British engineering firm, is fighting American attempts to extradite him because of alleged price-fixing by two American subsidiaries.

The application for extradition has been made under the hotly contested terms of a treaty between Britain and America. Signed after the September 11th 2001 terrorist attacks and later incorporated into Britain's Extradition Act, which came into force in January 2004, its supposed aim was to facilitate the prosecution of international terrorists. But it is increasingly being used—by America at least—to pursue white-collar suspects in Britain.

British human-rights lawyers complain that the act's provisions are non-reciprocal and thus grossly unfair. America has only to allege that an “extraditable” offence—one carrying a maximum prison sentence of at least one year—has been committed to justify an extradition from Britain. It need not produce supporting evidence. Britain, in contrast, must show that it has a prima facie case against any suspect it wants to extradite from America.

In court this week, Mr Norris's challenge to his requested extradition was rejected. But his lawyer, Alistair Graham of White & Case, says he will appeal—all the way up to the House of Lords, Britain's highest court, if necessary. Mr Graham has applied for a judicial review of what he calls a “deeply flawed law”. If Mr Norris is extradited, “then no English executive with subsidiaries or operations in the United States is safe”, he argues.

Mr Norris, who left Morgan Crucible in 2002, has been charged by an American grand jury with conspiring to fix carbon prices in America in 1989-2000 and then conspiring to obstruct the course of justice. One American subsidiary pleaded guilty and was fined $10m. Mr Norris, who denies the charges, does not face prosecution in Britain, where cartel activity was not even a criminal offence until 2003.

Gary Spratling, a former American deputy assistant attorney-general, calls the move to extradite Mr Norris “potentially the most significant development in international anti-cartel enforcement in years”, providing the chance “to change the face of international cartel enforcement forever”. He expects a conviction to lead to “a wave of self-reporting from jurisdictions where it hasn't happened before”, as firms and executives confess to the antitrust authorities in hope of lighter punishment.

According to Scott Hammond, a current deputy assistant attorney-general dealing with antitrust, 19 foreigners from nine different countries are now either in jail in America or have recently completed jail terms there for violating American antitrust laws. Mr Norris's case is the first to involve extradition. “To have the UK be the first government to bat for us in seeking extradition is remarkable,” he told a conference in March on white-collar

crime. Of the 43 extradition requests made by America to Britain since the new extradition law came into force, half have been for white-collar rather than terrorist crimes.

Another intriguing case before the English courts involves three former NatWest bankers who face extradition on Enron-related “wire fraud” charges. As the alleged misconduct by the “Bermingham Three” (named after one of them, David Bermingham) mostly occurred in Britain and the alleged victim was a British bank, they argue that, if they are to be tried, it should be in Britain, where (they think) they would get a fairer trial. However, for reasons that are unclear, Britain's Serious Fraud Office (SFO) is not seeking to prosecute them.

Under the double-jeopardy rule, no one can be extradited for a crime for which he has been tried elsewhere. But Britain's new law fails to address a situation in which a domestic prosecutor does not act because investigations are already under way abroad (one possible explanation for the SFO's inaction). The Bermingham Three's challenge to the SFO's decision will be heard in the High Court this month. Even British executives with only marginal activities in America are quaking.

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Mobile e-mail

Nascent

May 12th 2005 | SAN FRANCISCO
From The Economist print edition

The battle for the mobile e-mail business has barely begun

SUDDENLY, it seems, everyone is realising that the next big thing in telecoms and technology could be mobile e-mail. On May 10th, Microsoft, the world's largest software firm, unveiled a new version of its Windows operating system designed for mobile phones. This will be able to run programs from independent software firms, such as Silicon Valley's Visto, Good Technology, SEVEN and Intellisync, that will let mobile-phone users send and receive e-mail on their handsets. This follows a very busy April, when SEVEN bought Smartner, a Finnish rival, and Visto reached deals with the largest mobile operator in the world, Vodafone, and, in Canada, with Rogers Wireless, to start rolling out mobile e-mail services.

In the short term, this would seem to be bad news, above all, for Research in Motion (RIM), a Canadian firm that now dominates mobile e-mail with its BlackBerry handheld device (nicknamed “CrackBerry” for its addictive nature). Unlike the smaller software firms snapping at its heels, RIM offers employers a complete service that includes both software and hardware. Controlling everything in this way let RIM establish an early lead.

The bigger picture is more intriguing. RIM has been stunningly successful, but even it has only around 3m users, mostly itinerant corporate executives. This compares with an estimated 150m employees worldwide who rely on e-mail but do not yet have a mobile service for it—not to mention the 1.5 billion consumers who have mobile phones, love text messaging and might also love e-mail. Of the 680m handsets sold last year, only 20m were so-called “smartphones” that double as calendar, contact book and e-mail device.

“It is still early, early, early in this—dare we say nascent?—trend,” says Pip Coburn, an analyst at UBS. He expects mobile e-mail to be a “killer application” because it taps into people's strongest psycho-emotional needs—the urge to connect with others (and simultaneous fear of social isolation if they cannot), as well as the desire to be mobile—while asking relatively little of them by way of new learning, as they already know how to send e-mail via their PCs. Indeed, e-mail is likely to blow away a lot of the other fancy services that mobile operators are hoping to push over their third-generation wireless networks. Andrew Odlyzko, a telecoms guru, once did a survey in which he asked people to choose, hypothetically, between having either e-mail or the entire content of the world wide web: 95% chose e-mail.

This has several implications. First, as Mr Coburn argues, the trend toward “Swiss Army knife” handsets that do absolutely everything may not go very far, whereas simple and cheap “dumb smartphones” that stick to connecting people via voice, text messaging and e-mail may ultimately win in the mass market. Second, for the software industry, the field is still wide open. Woody Hobbs, the boss of Intellisync, draws an analogy to PCs in the early 1980s. Apple was then ahead with a winning product bundle of proprietary hardware and software. But eventually it lost out to a host of hardware makers whose products were compatible with Microsoft's operating systems. Today, RIM might be cast as Apple; auditions have only just begun for all the other roles.

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French corporate governance

Split and stay

May 12th 2005 | PARIS
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Splitting the jobs of chief executive and chairman can prolong a boss's reign

AFP

At least one of them is running Vivendi

COMPANY bosses do not like giving up power—and French bosses have more power than most. Yet Jean-René Fourtou, until last month *président directeur général*—combined chief executive and chairman—of Vivendi, a media and telecoms firm, and Serge Tchuruk, in the same position at Alcatel, a telecoms equipment-maker, recently promoted a dismembering of their roles into separate posts of chairman and chief executive.

Why? Both men are past retirement age: Mr Fourtou is 65 and Mr Tchuruk is 67. The creation of a separate job of chairman allows each of them to stay at the helm of his firm without running it day to day. This goes directly against the spirit of the *nouvelle régulation économique*, France's big reform of corporate governance introduced in 2001. This favoured splitting the role of boss into two jobs, but, crucially, assumed that (as in Britain) an outsider would be appointed non-executive chairman.

Most of the big firms that have split the top jobs have made the old boss chairman. Alain Joly, erstwhile boss of Air Liquide, a gas supplier, became chairman of its new supervisory board in 2001. Bertrand Collomb, since 1989 combined chief executive and chairman of Lafarge, a cementmaker, filled the new chairman's post in May 2003. Louis Schweitzer, boss of Renault, became chairman of France's biggest carmaker on April 29th, when Carlos Ghosn became chief executive. Lindsay Owen-Jones, head of L'Oréal, a cosmetics firm, will remain chairman when Jean-Paul Agon becomes chief executive next April.

There is a case for making a retiring leader the chairman. As an overseer of the new boss, he will certainly be well-informed. But, on balance, such potential benefits do not justify the risk. Even for a good chief executive, the transition to a non-executive role can be hard: letting go is never easy. An ineffective chief executive may well prove disastrous as a chairman—always defending his legacy and stopping his successor changing direction.

Mr Fourtou certainly did well as chief executive of Vivendi. He slashed the debt of the troubled firm he inherited, raising €22 billion ($27 billion) through some 90 asset sales. For the first time in three years, Vivendi recently paid a dividend.

Less happily, Mr Tchuruk is pursuing a controversial diversification based on selling Alcatel's civil satellite operations to Thales, a state-controlled defence-electronics firm, in exchange for a 30% stake in Thales. Three of his chosen dauphins have quit over strategic disagreements.

It should not be a former chief executive who decides on the next leadership of a firm, says Philippe Haspeslagh of INSEAD, a business school. As head of a board's nomination committee he is likely to pick someone who is not quite of his calibre. Mr Collomb chose Bernard Kasriel, a low-profile Lafarge veteran, as chief executive. Mr Fourtou chose Jean-Bernard Lévy, his self-effacing deputy—not Bertrand Meheut, independent boss of Canal Plus, Vivendi's pay-TV division. Mr Tchuruk has anointed Mike Quigley, an Australian who does not speak French. The generation of corporate sun-kings, a well-connected part of the French elite, is not going any time soon, says Mr Haspeslagh.

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Plastics and petrochemicals

Sell when the going is good

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Shell and BASF are selling a huge plastics maker. Is their timing right?

IN THE wonderful world of commodity plastics, Basell is a giant. Joint-ventures included, it has the capacity to make 8m tonnes a year of polypropylene and 2.5m of polyethylene; many more specialised products; turnover of almost $9 billion; and profits, though unrevealed, that have certainly been solid of late, for all the high cost of its ultimate raw materials, oil and natural gas. So why have Basell's joint owners, Shell Chemicals and BASF, just sold out? Could it be because they think that the market is about to peak?

After some tough years, 2004 was kind to chemicals firms. The good times continued into 2005, even as the oil price soared. First-quarter 2005 data show profit rises ranging from DuPont's 45%, over the same period in 2004, to 188% at America's leader, Dow Chemical, with rises at ExxonMobil Chemical and the European (in fact, German) champions, Bayer and BASF—world leader, by sales—in between.

How, given the soaring oil price, did they do so well? Notably, by charging higher prices. BASF's volumes grew by only 1% in the latest 12 months, but its prices rose by 13%, for instance.

Makers of the basic petrochemicals whose output goes into Basell's (or their own) plastics did very well; especially America's ethylene producers, who saw demand grow fast, while capacity did not. In the bad years, Dow alone shut more capacity than the entire industry brought on stream last year in America. By end-2004, ethylene there fetched 60% more than two years earlier. But downstream users could pass that on. Likewise in Europe: Basell last month raised prices yet again.

But can it last? As some of the heat goes out of the world economy, the cost of oil (and energy generally, another large input in petrochemicals) may fall. But so may prices all down the line, as demand-growth slows for bottles, fabrics, shopping bags or bits of cars. Already there are signs that making price rises stick may be hard.

That, in part, may be why last July Basell's owners, as the market was rising, decided to sell. Shell wants to concentrate on its core business: oil. BASF expects higher, more stable margins in more specialised chemicals. Basell two years ago was losing money. A boom is a good time to get out.

Yet others know that. So why buy now? Iran's state petrochemicals firm bid eagerly for Basell—only to lose when America objected. Instead, at $5.7 billion (including debt) Basell will go—regulators permitting—to a consortium led by Access Industries, a private-equity firm run by Len Blavatnik, a Russian-born American, and the Chatterjee Group, run by Purnendu Chatterjee, an Indian based in New York.

The rival bids point to the future of petrochemicals. The ethylene boom has not inspired plans for much new capacity in the West, but East Asia and, especially, the Middle East are a different story. Led by Saudi Arabia and

Iran, the Middle East may reach 12.5m tonnes of capacity this year, some 12% of world demand; by 2010 it plans for 29m tonnes, says Chemical Market Associates, a consultancy. The oil states are moving into propylene too, and downstream as well. Mr Blavatnik likewise made his hundreds of millions in Russian oil and still has big interests there.

Mr Chatterjee, in contrast, shares (with the Tata group and West Bengal's theoretically communist state government) ownership of troubled Haldia Petrochemicals. Haldia is already a licensee of Basell's technology in commodity plastics, and might fancy direct access to Basell's wide expertise in more upmarket stuff. But more important is its location. West Bengal is no oil state, though offshore oil and gas have just been found. But India has 1 billion people, and they are growing richer fast.

China has even more people, growing richer faster still. Its imports of chemicals soared last year, and, as with most things, it wants to produce more itself. State-owned Sinopec, its dominant petrochemicals firm, made 4m tonnes of ethylene last year and has just announced a $5 billion expansion of two plants, to a joint capacity of 2m tonnes. It is equally active downstream. Exxon, Shell, Dow and BASF are each involved in various projects in China.

It is these factors, not its main base, Europe, that provide the context in which Basell looks inviting to its future owners.

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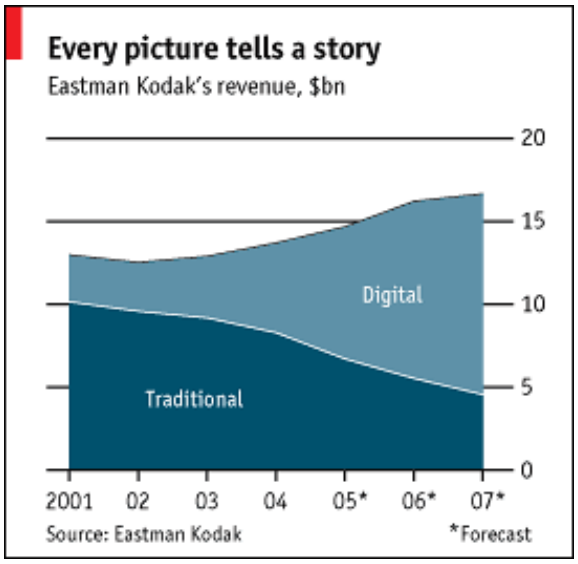
Eastman Kodak

Another Kodak moment

May 12th 2005 | SAN FRANCISCO
From The Economist print edition

A photography giant changes boss to survive in the digital age



SHAREHOLDERS of Eastman Kodak were arriving for their annual meeting in Rochester, New York, on May 11th, when they heard the news. Daniel Carp will step down as chief executive at the end of the month, and as chairman at the end of the year. After 35 years at Kodak, and five years as its boss, Mr Carp was implicitly conceding the obvious: even though he had correctly identified the mortal threat to the 113-year-old photography giant from digital technology, he had done so too slowly, too late.

Mr Carp's moment of insight—analysts at the time derided it as his "sudden-epiphany strategic plan"—came in September 2003, when the displacement of silver-halide film, Kodak's core business, by digital technology was already in full swing. Kodak would restructure, he said, letting its film business wither while re-investing the cashflow in new digital technologies. Since then Kodak has laid off 11,000 workers; 15,000 more will go by 2007. In digital cameras, Kodak is winning market share from Japanese rivals. Kodak's EasyShare Gallery (formerly Ofoto) is the largest online photo-printing service, with 20m members. This year, digital revenues will top those from film.

But that is still not good enough. Back in 2003, Mr Carp assumed that the film industry would decline by some 10% a year in America, and by 6% worldwide. In fact, it is likely to shrink by 30% this year in America, and by 20% worldwide. The world, it seems, is changing faster than Kodak can. In April, Kodak posted a humiliating quarterly loss of $142m, and its bond ratings were cut to junk.

Mr Carp's successor is Antonio Perez, a Spaniard who joined Kodak in 2003 after spending most of his career at Hewlett-Packard (HP), a huge computer and printer company, where he ran the consumer and digital-imaging businesses. As it happens, HP itself recently changed bosses and is in the midst of an identity crisis. One theory is that HP wants to become what Kodak was in the analogue era: the world's top imaging company. In March, HP bought Snapfish, the closest runner-up to EasyShare Gallery, and it is investing oodles in digital cameras. Mr Perez must know exactly what he is up against.

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Face value

China's patient crusader

May 12th 2005
From The Economist print edition

Weijian Shan is fighting to make Chinese business more normal

TENDING pumpkins and hauling bricks in the Gobi desert as a young man, Weijian Shan kept recalling a line from the Chinese poet, Li Bai: “There must be a use for someone like myself.” At the time, that did not seem obvious: banished there from Beijing during the Cultural Revolution when he was 15, Mr Shan spent six years in a poor farming village doing hard manual labour with little hope of getting out and no sense of a future.

Today, he has found a use for himself. Now 51, Mr Shan is a managing partner of Newbridge Capital, one of the most successful private-equity firms in Asia, and one of a handful of senior businessmen bringing western capital, ideas and management to the region's firms. While private equity is currently extremely hot in China, deals are risky, because of poor corporate governance and the absence of obvious exit strategies—that is, ways to realise the value of a successful deal. At a minimum, private-equity firms in China should control the board of a firm they buy, above all in banking, where corruption is rife. Last autumn Newbridge won final approval for an unusual—and perhaps one-off—deal, spending $160m on an 18% stake in Shenzhen Development Bank (SDB). This made Newbridge the largest shareholder. Mr Shan's formidable connections helped Newbridge also to gain control over management, a first for a foreign investor in a Chinese bank.

Mao Zedong's purges halted Mr Shan's formal education at the age of 12. He risked punishment by spending evenings in the Gobi in a disused shed, perched on the handle of a spade, reading by kerosene lamplight.

Education offered an escape. “Anyone can be lucky or unlucky,” he says. “But I would have felt regret if there was an opportunity and I was not prepared.” He read everything, from medical books and pesticide manuals to Chinese classics. Using Voice of America radio and an old dictionary, he taught himself English—though his pronunciation was so bad that when he first spoke it no one understood him. The desert taught him not to give up, and to wait. “Once you have experienced hardship—starvation is the worst—you don't think anything is hard anymore,” he says. “You learn patience.”

Mr Shan's chance came in 1975. As the Cultural Revolution drew to an end, his work unit lobbied to get him a chance to study English in Beijing. He then moved to America, where he spent 12 years. He gained an MBA, a doctorate in business and a masters in economics; spent several months at the World Bank; taught as a business professor at Wharton in Pennsylvania for six years, where he founded a journal, the *China Economic Review*; and joined J.P. Morgan, becoming a managing director.

The bank sent him to Hong Kong, where he was snapped up by Newbridge, a spin-off from Texas Pacific Group, a big American private-equity firm that was just launching in the region. Buying and restructuring firms hit by Asia's economic crisis was then a popular strategy. One such deal, for Korea First Bank, which Newbridge bought from South Korea's government in 1999 and sold to Standard Chartered in January 2005 for $3.3 billion, almost quadrupling its money, put Newbridge on the map.

That experience, plus the backing secured by Mr Shan from China's top policymakers, gave the firm the confidence to bid for SDB, at a time when few outside investors were willing to touch a Chinese bank, riddled with bad loans and corruption. The takeover required all of Mr Shan's patience. There was a competing bid from Taiwan to see off, and the Shenzhen city-owned sellers kept changing their minds. All told, the process took over two years. Newbridge, fed up, nearly walked away. Mr Shan alone was willing to wait, but “if I had wanted to give up, nobody would have disagreed with me.”

Mr Shan's patient determination—something his opponents find irritating—may say as much about his principles as his business ambition. In the rabidly anti-capitalist China in which he grew up, nobody aspired to a career in industry. “I never thought I would become a vulgar businessman,” he laughs, rueing that in China wealth is becoming a yardstick of achievement and respect. Even so, his understanding of how modern China has evolved, from Confucianism to communism and now increasingly to capitalism, allows him to operate comfortably within it.

The wisdom of the West

It has also led him to believe that he can make it work better, by introducing what he has learned in the West. For a Chinese businessman, Mr Shan is unusually outspoken, and sometimes prickly, as he seeks to change China's business culture by writing newspaper editorials, giving speeches and serving as an independent board director. On the board of Baosteel, a big steel firm, he successfully objected to its purchase of a finance operation from its unlisted parent, arguing that this had nothing to do with steelmaking. On the board of China Unicom, he questioned Beijing's decision to shuffle managers between the country's telecoms firms. On the board of Bank of China's Hong Kong arm, he played a crucial part in launching an independent inquiry after a scandal in 2004 over questionable loans.

Mr Shan's biggest concern now is China's current bank-financed investment binge, which he says is leading to huge capacity increases and profitless growth. The solution, he argues, is to clean up the banks and to introduce proper incentives for loan officers, weaning them off lending based on relationships not returns. That is what Newbridge did at Korea First, writing off bad debts, cutting risky loans to big firms and building a more profitable business in mortgages and credit cards. Using that model, a successful turnaround of SDB, now a weak second-tier lender, would create a much-needed oasis of rigour inside China's otherwise wretched banking system. Can it be done? Mr Shan understands the risks better than most—and, clearly, life has given him plenty of reasons to be hopeful.

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Deutsche Börse

Seifert gets the blues

May 12th 2005 | FRANKFURT
From The Economist print edition

Landov

Shareholder power has unseated Werner Seifert, chief executive of Deutsche Börse, and given his company a vital course-correction

LAST year, a comedy entitled “Schultze Gets the Blues” was a hit in German cinemas. It tells of a redundant miner who heads off to Louisiana to follow his star playing the accordion. Now Werner Seifert, a keen player of the Hammond organ, has the chance to do something similar. Until this week, Mr Seifert was chief executive of Deutsche Börse, a German financial-exchange group that runs the Frankfurt stockmarket. But on May 9th, in one of the greatest shocks to hit corporate Germany in recent years, the company announced that Mr Seifert was leaving immediately. The chairman, Rolf Breuer, would leave by the end of the year. For now, he is seeking a new chief executive and replacements for several members of the supervisory board.

Both men fell victim to shareholder power, having chosen repeatedly to disregard it. The chief agent of their fall is Christopher Hohn, who runs The Children's Investment Fund (TCI), a London hedge fund. Armed with an 8% stake in Deutsche Börse, TCI opposed Mr Seifert's attempt, launched last December, to take over the London Stock Exchange (LSE). Other shareholders, miffed at the lack of pre-bid consultation and at the prospect of the dilution of their stakes, added their voices to Mr Hohn's, forcing Deutsche Börse to withdraw its bid. Attempts to placate them with a share buyback and special dividends failed. The two men seem to have accepted, apparently reluctantly, that they could not withstand calls for their heads at the annual general meeting on May 25th.

Mr Seifert did not run a bad company. Far from it: Deutsche Börse grew and prospered under his leadership. He had the vision and persistence to convert the

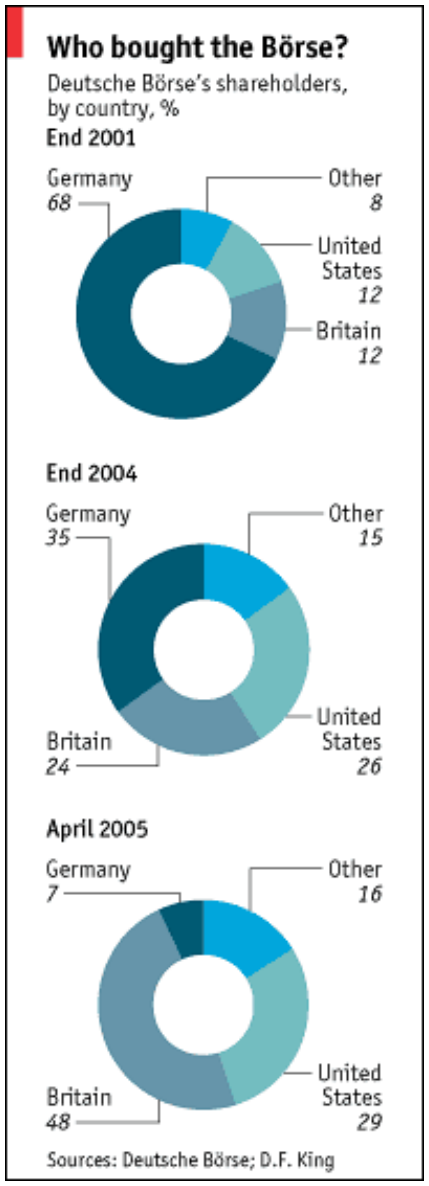
Frankfurt exchange to electronic share trading and to integrate clearing and settlement. He always had his detractors—he could be ruthless with those who dared to cross him—but which chief executive does not? And there were failures too, such as an attempt in 2000 to merge with the LSE and America's NASDAQ.

Deutsche Börse went public in 2001, with a bunch of safe German owners. But Mr Seifert failed to take note as the shareholder base shifted: 68% German in 2001, it was 65% foreign by the time of his second approach to the LSE and 93% by April (see chart). His shareholders had become dislocated from the supervisory board, which is supposed to represent them. And they feared a destruction of shareholder value.

It is the job of chief executives to have vision, of which Mr Seifert had almost a surfeit. But the supervisory board is meant to check the chief executive's strategy if shareholders dislike it. This Mr Breuer and his board failed to do.

Now Deutsche Börse needs a new chief executive who can somehow square the demands of its return-hungry shareholders with the conventional wisdom that European exchanges are sure to merge. Even TCI does not rule out a friendly merger between Deutsche Börse and Euronext, its main European rival. Euronext still has an offer on the table for the LSE (and Deutsche Börse has reserved the right to renew its bid). If Euronext wins the British prize, it will owe much to the quiet approach of its affable, soft-spoken chief executive, Jean-François Théodore. Deutsche Börse's next boss might take note.

Possibly, the answer to the question of how to merge might be: don't. Any marriage is sure to excite regulators. An exchange is not just another company. For instance, Deutsche Börse is only the licensed operator, not the owner, of the Frankfurt stock exchange. If its supervisor—part of the economics ministry of the state of Hesse—believes that the functioning of the exchange is endangered, it can withdraw the operator's licence. The regulatory spaghetti being designed during talks earlier this year between Deutsche Börse and the LSE to placate both the Financial Services Authority in London and the supervisors in Wiesbaden was getting impossibly tangled. Then there are antitrust concerns. A union of, for example, Deutsche Börse's derivatives exchange, Eurex (which it co-owns with Switzerland's SWX Group), and Euronext's Liffe subsidiary would be certain to set off alarms.



Even without regulatory worries, mergers might be too hard. Why bother, when the sharing of technology and trading links could give customers a similarly seamless service? The future of exchanges rests partly on technology, but also on the network effects achieved through partnerships and easy access across frontiers and markets. Maybe these gains can be had without the hassle of merging.

Also unresolved is the tension between the special, near-monopolistic nature of exchanges (at least some of them) and the trend for exchange operators to be converted from user-owned clubs into listed companies. Traces of this can be seen in the Frankfurt fiasco. It is plainer in New York, where the New York Stock Exchange (NYSE) wants to take over Archipelago, an electronic rival, and become a listed entity. Some users cannot see why they should let a regulated quasi-monopoly become a money-machine for a new lot of investors. This week, one NYSE member initiated a lawsuit aimed at blocking the deal.

As for Deutsche Börse, it may be a freer player in this changing world now that Mr Seifert has gone. He built a monolithic trading, clearing and settlement structure, despite its unpopularity with some regulators. A successor might want to unbundle it, perhaps spinning off Clearstream, the securities depository, to make Deutsche Börse a more acceptable hub for partner markets. There is scope for consolidation with German regional exchanges or central European bourses. Now that the London fantasy has died, perhaps a new chief executive will be allowed, even by hungry hedge funds, to have fresh dreams.

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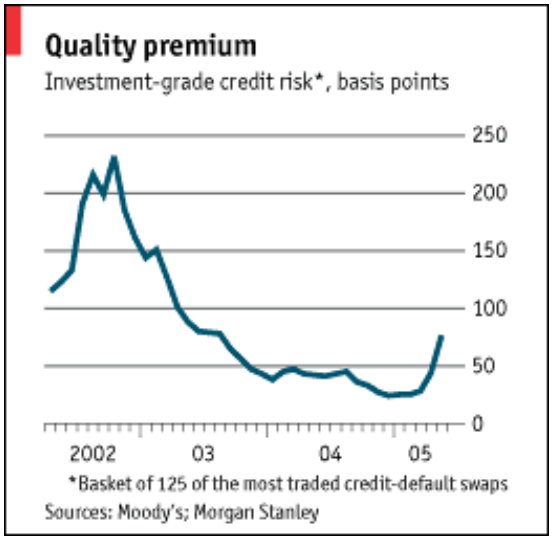
Corporate bond markets

A whiff of fear

May 12th 2005 | NEW YORK
From The Economist print edition

After several bold years, the credit markets begin to tremble

BY MANY measures, America's economy continues in strikingly good health. Profits, already setting records, are up. Companies are swollen with cash and are hiring workers. The proportion of corporate bonds in default is the lowest since 1997. And GDP growth of 3.6% in the past year would be celebrated in France and Germany with lashings of champagne and *Sekt*. The Federal Reserve's eight increases in official short-term interest rates since June can be read as a response to the economy's strength.



Ah, but other interest rates—those paid on American companies' bonds—are rising too, and for a more worrying reason: credit quality. The most obvious instances of this have been the bonds of two giant carmakers, General Motors and Ford, which Standard & Poor's (S&P), a rating agency, downgraded to junk status on May 5th. However, the malaise in the market for corporate debt goes far wider than these two big names.

In retrospect, the price of credit-default swaps—in essence, insurance against companies' defaulting on their bonds—appears to have bottomed out in December. It rose noticeably in March and accelerated further this week (see chart). It is now back to where it was in the summer of 2003, when an American economic recovery was still in doubt. If rumours are to be believed, the latest move may have come about because hedge funds that have invested in these newfangled instruments may be in trouble themselves (see article).

As well as the price of default swaps, the spreads between the yields on risky and less risky bonds have begun to increase too. Having spent three years being extraordinarily brave (or foolish) in lending to companies and other risky borrowers at ever-lower prices, investors are once again demanding higher returns for greater risks.

American companies benefited greatly from the loosening of monetary policy begun by the Fed in late 2000. Between then and 2004, the Fed cut rates from 6.5% to 1%, before starting to tighten last year. The yield on ten-year Treasuries is even now less than 4.3%. Companies began to gain from cheaper money only after October 2002, when the spread between high-yield corporate bonds and Treasuries began to fall—from ten percentage points then to less than three in February this year, according to Moody's, a rating agency. The spread is now four points, and may widen more. Several planned bond issues have been postponed because investors are becoming more demanding.

Plenty of companies besides GM and Ford have been marked down. The swap price has increased for American International Group (AIG), a giant insurer mired in regulatory goo. Also affected have been TXU, a Texan utility;

Clear Channel Communications, a radio broadcaster; Weyerhaeuser, a paper producer; and any retailer whispered to be considering, oh, almost anything—a stock buy-back, a leveraged buy-out, or an acquisition—such as J.C. Penney and Limited Brands. More speculative issues have been hit even harder. The prices of sovereign debt issued by Argentina, Brazil and Mexico have all slid. The market is also nervously watching Calpine, a utility with $18 billion in debt. S&P downgraded its bonds, already rated as junk, still further on May 9th.

Last month two deals that would have gone through effortlessly in February sputtered to a conclusion. The first involved New Page, a company created by Cerberus, a private-equity house, in a buy-out of the coated-paper business of MeadWestvaco, a paper and packaging firm. Almost the entire $2.3 billion price was to be financed in the public debt markets. During the roadshow for the deal, the suggested pricing for the mid-tier tranche of debt was 9.5%. In the event, it was priced at 10.25%, and then traded down in the market to 10.5%, according to S&P's Leveraged Commentary & Data (LCD), a non-ratings unit that reports on the loan and high-yield bond markets.

In the second deal, Carlyle Group, another private-equity firm, raised funds for its acquisition of Verizon's Hawaiian telecommunication business. The result was similar. At the last moment, the rate paid on the debt was increased and the size of the issue was reduced from $550m to $500m. Such reductions in size and increases in rates are becoming increasingly common, says Matthew Fuller of S&P's LCD; in other deals, he adds, the term of the bond has also been cut.

Some deals are not getting done at all. On May 10th, a bond issue for American General, an insurer, was announced and not completed. Although it is not surprising that the company, as a subsidiary of AIG, would encounter turbulence, such deals are not usually publicised until some sort of agreement on pricing has been reached. In the past four weeks, about $1.3 billion of high-yield debt has been raised, compared with an average of $2.5 billion every four weeks last year. Most of the newer issues are small, says Mr Fuller, ranging from a not very well-known oil-exploration firm to a manufacturer of industrial pumps.

If this is worrying for companies, it is worse for private-equity firms and investment banks, which have spent the past five years feasting on ever-cheaper credit. Often, companies were taken private with debt raised at one price and then refinanced more cheaply within months, and the financiers pocketed the difference. Now, just as the number of firms wanting to do deals has risen, the cost of bankrolling them has gone up as well. It is hard to believe that the remarkable returns from direct investments will be sustained. They were nice while they lasted.

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Hedge funds

Too clever by half

May 12th 2005
From The Economist print edition

Testing times

HEDGE funds are getting hammered. Markets, regulators and the public are all laying in. At this rate, it remains only for investors to lose faith. The markets have been the most unkind, thanks largely to downgraded General Motors and Ford. Funds that were long on the carmakers' bonds and short on their stocks—a favourite trade—were caught out last week when shares rose (on Kirk Kerkorian's emergence as a big buyer of GM) and bonds fell (on their downgrade to junk by Standard & Poor's).

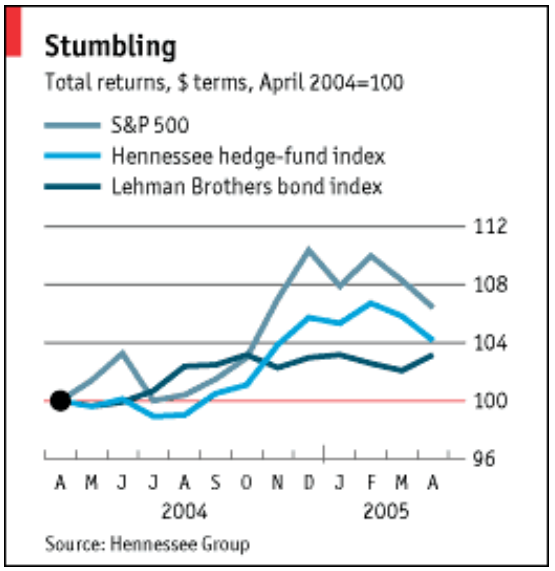
This week, growing problems with other trading strategies in credit derivatives and structured finance also came to a head. Collateralised debt obligations (CDOs—pools of corporate debt that are divided into tranches with varying degrees of risk and sold to investors) have been buffeted not only by the deteriorating credit quality of big constituent companies but also by the breakdown in correlations among the firms. Hedge funds that buy the riskiest, “equity” tranche of these CDOs and borrow to do so have been hard hit. And many were hedged in ways that went wrong when different tranches failed to move as predicted. Spreads on both investment-grade credit-default swaps (insurance against bond default) and on high-yield indices have increased sharply.

S&P says that in fact it expects to downgrade or put on negative credit watch only a tiny proportion of the total: at most 35 European CDO tranches of the 745 that contain carmakers, and in America only one deal of the 265 with exposure to Ford and GM. Even this was enough to fuel rumours this week that some hedge funds are in serious trouble, as are the investment banks who deal with them and invest alongside them.

All this comes at a trying time for many hedge funds. As the chart shows, returns are still lacklustre: funds lost 1.9% in April. The Hennessee Group, a hedge-fund advisory firm that compiles the index, reckons it reflects at least 50% of the capital in the hedge-fund industry.

Volatile returns are to be expected. And no one is yet suggesting that another Long Term Capital Management is in the offing. Nevertheless, the market ructions are important.

First, they are providing the first “stress-testing” of a fast-growing derivatives market. Second, they are dampening the appetite for risk more generally. Investment banks have used hedge funds to offset some of their own risks. That will be harder in future.“We expect synthetic CDO issuance to drop off,” says Robert McAdie, global head of credit strategy at Barclays Capital. “As a result CDOs will be less influential in driving spreads tighter in the cash market.” A timely reminder that risk has its cost, and so must have its price.



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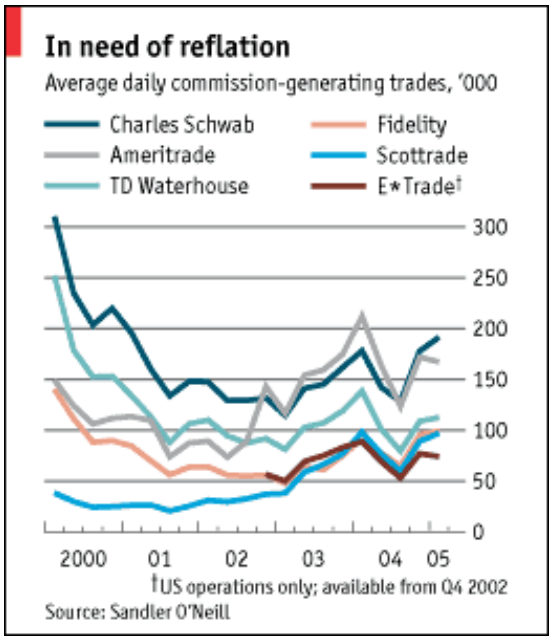
Online brokers

Net gains

May 12th 2005 | WASHINGTON, DC
From The Economist print edition

Markets have welcomed talk of a bid by E*Trade for Ameritrade

WELL, it's one way of drumming up trade. America's online stockbrokers, becalmed by slow trading volumes, have been agitating the markets with merger talks among themselves. This week, reports that E*Trade, a discount broker, had made an unsolicited bid for Ameritrade, a rival, set off a trading frenzy. Ameritrade's share price rose by 18.7% on the day after the news broke; more surprising, given markets' habitually dim view of acquirers, E*Trade's went up by 6%. Shares in Charles Schwab, the biggest such brokerage, also rose. Its eponymous founder and chief executive denied any intention to acquire either of its competitors.



The market likes the sound of a merger because retail customers' appetite for trading seems to have faded. Although margins are healthy—last year, Ameritrade's was 50% before tax—price wars threaten to eat them away. Fidelity, a giant fund manager that also runs a brokerage service, recently slashed its commission for frequent online traders by 25%, to $10.95 a time. The most active pay only $8. Schwab and E*Trade also made big cuts in February. According to Fox-Pitt, Kelton, an investment bank, there is still “plenty of room” for fees to fall further, given that processing each incremental trade costs only about $1.

As for trading volumes, no relief is in sight. For some brokers, the dotcom glory days seem far off (see chart). Sandler O'Neill, an investment bank, predicts that the number of online trades, already down in the past year, will turn out to have been at least 10% lower in April than in March. The longer-term prognosis will depend on the markets, because trading volumes rise in good and markedly bad times.

Diversification is another reason to merge. Ameritrade gets about 60% of its revenue from stockbroking. It boosted its volumes by buying another broker, Datek, in 2002 for $1.3 billion. By contrast, E*Trade emphasises banking, home-equity loans and mortgage services as well as its brokerage. Buying Ameritrade, which is roughly the same size, should mean more customers for its array of products, as well as savings from combining services and platforms. Still, this strategy carries risks. Schwab has been criticised for losing its focus after it revolutionised the discount-broking business. It bought firms specialising in private banking and institutional research. Broking commissions now account for less than 20% of its business.

If online brokers are struggling under flat volumes and pressure to diversify after shaking up their industry with new technology, they are in good company. A wave of consolidation among financial exchanges is being driven by similar forces. If the brokers link up too, traders will be hoping that savings at all stages of the chain are passed

along to them.

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America's trade deficit

Surprise shrinkage

May 12th 2005
From The Economist print edition

An unexpected drop in imports has cut America's trade deficit. For how long?

WALL STREETERS knew what to expect from America's March trade figures, published on May 11th: another record deficit. They were wrong. The monthly shortfall was $55 billion, 9% less than in February and the smallest in six months. Despite high oil prices, the import bill fell, while exports grew. But it would be rash to conclude from one month's figures that the deficit has peaked. A careful look suggests that the figures reflect seasonal oddities, rather than a new trend.

Although exports reached a monthly record, $102 billion, they rose by only 1.5% in March, and much of that was due to long-expected sales of aircraft. Year-on-year figures show that export growth is slowing: in March exports rose by 7% compared with a year earlier. In February the rise was 9%, in January 13%.

The main cause of the fall in the deficit was a sharp drop in non-oil imports. America's oil-import bill rose by 4%—modest, given the rise in prices that month. But other imports tumbled by 4%, a fall centred on consumer goods (down by 6.8% on the month) and cars.

There is little evidence that this drop was caused by a cheaper dollar. Although the growth of imports from the euro area slowed, purchases from Asia, particularly from China, weakened much more—and China's exchange rate has not (yet) shifted against the dollar. Total imports from China fell by 4.4% in March; imports of textiles and clothing, which had soared in January and February, plummeted by 21.2%.

It could be that the American consumer is at last starting to flag. After all, there were signs, in retail sales and consumer confidence, of soft spending in March. But the magnitude of the import drop looks too big to be explained by this alone. And April's buoyant job-creation figures suggest that any weakness may anyway have been short-lived.

The best bet for now, therefore, is that a good slice of March's drop in imports was a one-off. Jan Hatzius, an economist at Goldman Sachs, points out that Chinese New Year fell unusually late this year. That may have delayed some goods shipments to America and cut March's import bill. He also points out that over the past decade, America's imports from China have always fallen in March when the new year falls after February 1st. On that logic, the next couple of months should see renewed jumps in the trade deficit.

From the government's perspective, these figures are handily timed. A drop in Chinese imports may be just what is needed to stem the rising anti-Chinese sentiment in America's Congress. A fall in textile imports may temporarily curb the Department of Commerce's enthusiasm for quotas on a huge range of Chinese textiles. But anyone believing that America's trade performance is definitely on the mend may well be disappointed.

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Company pensions in America

Promises, ahem

May 12th 2005 | NEW YORK
From The Economist print edition

America's pension insurer sinks deeper into deficit

FOR the Pension Benefit Guaranty Corporation (PBGC), America's quasi-governmental insurer of private pension plans, things are bad and getting worse. One company after another has defaulted on its pension obligations, handing them over to the PBGC. On May 10th a bankruptcy judge in Chicago gave United Airlines the right to default on its four employee pension plans, which are underfunded by $9.8 billion—America's biggest-ever pension default.

United, which has been struggling to climb out of bankruptcy since 2002, stopped contributing to its pension funds last July. The judge's decision means it will sidestep more than $3 billion in obligations over the next five years. Trade unions are incensed. Many employees—especially pilots—will see sharp cuts in their pensions. One union says it will appeal against the decision. Workers might strike.

United's court win, which hands it a big cost advantage, could spur other struggling airlines to follow suit. Stung by high fuel prices and fierce competition from low-fare upstarts, the industry is in a sorry state. US Airways foisted its pension plans on to the PBGC earlier this year. On May 10th Delta gave warning that it is facing big losses and might need to file for bankruptcy protection.

The PBGC could ill afford more big corporate failures. The agency, which had a $9.7 billion surplus in 2000, faced a $23.3 billion deficit last year (including the expected effect of a default by United). But worse seems bound to follow: the PBGC puts corporate America's total pension deficit at $450 billion.

The Bush administration cannot but take notice. It has proposed sensible reforms to America's private-pension insurance system, including tying premiums to risk and a more accurate method of measuring pension assets and liabilities. It is also advocating greater disclosure of the health of pension funds to workers and investors. A bill is likely to be introduced into Congress within a few months.

But will lawmakers have the spine to stand up to industry lobbyists? Already, there is a bill in Congress to let airlines stretch out payments on pension shortfalls for an absurd 25 years. Only last spring Congress passed a law that relieved companies of more than $80 billion in pension contributions over two years—and gave the airline industry a special deal worth an extra $1.6 billion, allowing it to go on making pension promises it simply cannot afford.

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Economics focus

Poverty and the ballot box

May 12th 2005
From The Economist print edition

Why are poor democracies not better at ending poverty?

ONE of many ways in which the Chinese economy outperformed India's in the last two decades of the 20th century was in reducing poverty. In China, the number of people living on less than $1 a day, adjusted to reflect purchasing power, fell by about 400m, according to the World Bank. In India, the figure dropped by just 70m. There are many explanations for this, such as India's higher birth-rate. But it is nonetheless, for democrats, a puzzle, and something of an embarrassment.

India, unlike China, is a vibrant democracy with a proudly robust habit of turfing lousy governments out of office. The poor not only represent a big chunk of the electorate; they also, proportionately, vote more than the rich do. As Larry Diamond, of the Hoover Institution at Stanford University, puts it in a recent essay in a collection* published by the World Bank, one would logically expect such a democracy to choose “leaders, parties and policies that favour poverty reduction”. Yet, in this respect, at least, China's unelected heavies have done better.

This is a dismal conclusion for democrats, though most, like Mr Diamond, argue that the fault lies not with democracy itself so much as its partial implementation or hijacking by elites. Another new book†, by Bimal Jalan, a leading Indian economist and former governor of the central bank, lists some of the woes afflicting Indian politics, such as the rise of small parties, the dwindling of inner-party democracy and the shrinking role of Parliament in ensuring accountability. “For the poor in India,” he concludes, the political system “does not have much to offer—except the periodic satisfaction of casting their votes.”

In another chapter of the World Bank book, Ashutosh Varshney, a political scientist at the University of Michigan, writes that India's record in eradicating poverty is “neither extraordinary nor abysmal”. However, he makes the disturbing suggestion that some of the reasons India and other democracies have not done better are related to the structure of democratic politics itself.

As with “tigerish” rates of economic growth, the “miracles” in reducing poverty have occurred almost exclusively in dictatorships. But so have the disasters—sometimes in the very same dictatorship. Amartya Sen, an Indian-born Nobel-prize-winning economist, has noted that democratic India, unlike its colonised predecessor, has avoided famine. China, on the other hand, suffered in 1959-61 probably the worst man-made famine in history, in which 30m may have died.

In poverty-reduction, as in growth, India is typical of other developing-country democracies, having achieved steady but not spectacular success. It is a small group: precious few poor countries have been democracies for very long—Botswana, Costa Rica, Jamaica, the Philippines, Sri Lanka and Trinidad & Tobago, and a few others. Mr Varshney excludes Malaysia, which has eradicated poverty, as “at best half a democracy”. Other countries have democratised after becoming quite rich.

Voting one's caste

Why might democracy militate against poverty reduction in poor countries? Mr Varshney has two suggestions. First, democracies have a bias towards “direct” methods of tackling poverty, such as subsidies and hand-outs, which, in the long run, are less effective than “indirect” methods—ie, those that generate faster economic growth. In India, this seems undeniably true. Governments have built up whopping budget deficits, thanks largely to subsidies. Many farmers, for example, receive subsidised or free fuel, fertiliser, electricity and water. But little public money is spent on improvements that would do most to lift the growth rate: in infrastructure, primary education and basic health care. Everybody wants better roads, and nobody votes against them. But every politician promises to build them and hardly any do. Cutting subsidies, on the other hand, is a sure vote-loser.

Second, the poor are not necessarily a homogenous group. In a democratic system, they may organise themselves along lines other than economic class and “the shared identities of caste, ethnicity and religion are more likely to form historically enduring bonds”. If you are born poor, you may die rich. But your ethnic group is fixed. In India, with its myriad linguistic and caste-based groups, the upshot is a dispiriting beggar-thy-neighbour politics. Just as subsidies are easier to deliver than are roads and schools, so are affirmative-action schemes, giving jobs to members of specified castes.

The relationship between caste and class helps explain the wide regional discrepancies in India. Mr Sen has noted that in one Indian state, Kerala, infant mortality has fallen from 37 per 1,000 in 1979, the same as in China, to ten now, compared with 30 in China. He suggests that the improvement relates directly to India's democratic strengths. The collapse of the public health system in China in the reform era was possible because there was little political resistance, whereas the deficiencies of Indian primary health care are subject to constant public scrutiny. Mr Varshney points to another explanation for Kerala's good performance in reducing poverty: the “remarkable merging of caste and class”. This made the poor better-organised and more cohesive. Such a coincidence, he says, is rare. In most places, ethnicity and class cut across each other.

Even where they do, however, democracy, still young in the poor world, may yet prove better at reducing poverty than despotism has been. One of its many unquantifiable advantages is a capacity for self-improvement. In dictatorships, if the people are lucky, rulers may learn from their mistakes. In democracies, so can the people. In time, they may even get it right.

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* “Measuring Empowerment: Cross-disciplinary Perspectives”, edited by Deepa Narayan. World Bank, 2005

† “The Future of India: Politics, Economics and Governance”, Penguin India, 2005

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Neurology

A mirror to the world

May 12th 2005
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Empathy with others seems to be due to a type of brain cell called a mirror neuron

CHRISTIAN KEYSERS has a good way of making his point. He shows his audience a clip from a James Bond movie in which a large, hairy spider is climbing over our hero's naked body. He then asks the audience what they think the actor playing Bond is feeling.

It is impossible to tell, of course, whether Sean Connery was really revolted and fearful when the scene was being shot, or whether he was actually indifferent, but just acting well. The point is that the observer can feel—literally feel—Bond's fear. This ability not merely to know in an intellectual sense what someone else is feeling, but actually to feel it with them, is an important social attribute. Dramatists, novelists and psychologists have known about it for centuries, of course. And those who lack it, such as people who are autistic, are at a social disadvantage. But it is only in the past few years that its neurological basis has begun to be understood. It seems to rely on a type of nerve cell known as a mirror neuron. Dr Keysers, who works at the University of Groningen, in the Netherlands, is one of a band of neurologists that is studying them.

A mirror neuron is one that is active when the individual whose brain it is in is engaged in some action or experiencing some sensation or emotion, and also when that particular action, sensation or emotion is being observed in someone else. Action-sensitive mirror neurons were the first to be found, and they were discovered in rhesus monkeys, one of the mainstays of animal laboratory research.

When a monkey reaches out for something—a piece of food, for example—a particular group of nerve cells in its brain fires off lots of electrical signals. The activity of individual neurons within such a group of action-sensitive cells can be traced with electrodes that have tips so fine that they can be placed against a single cell. Most such cells fire only in response to the action. But about 20% of them also fire in exactly the same way if the monkey sees another monkey (or, indeed, a human) reaching out for food. This empathic firing “mirrors” the way the cells behave when they are involved in an action.

Sticking electrodes into human brains in this way is not on, of course. But modern brain-scanning techniques can be used to look for mirror activity in particular parts of the brain, even if they cannot pick out individual nerve cells. So Dr Keysers uses brain scanners to study the role of mirror neurons in human emotional and sensational empathy, such as the audience feels with Connery/Bond.

Measuring fear by letting a venomous spider crawl over the body of an experimental subject is no more likely to get past an ethics committee than is sticking electrodes in his brain, so Dr Keysers chose to study another emotion, disgust, instead. He put his volunteers in a brain scanner and wafted disgusting odours such as rancid butter and rotten eggs into their nostrils (he wafted some non-disgusting ones in, too, as a control). The disgusting odours, he found, activated part of the brain called the anterior insula. He then played film clips of people's faces registering disgust to his volunteers, and found activity in exactly the same part of the brain.

The sense of touch, too, is mirrored in this way. Though no spiders were involved, Dr Keysers found that part of the brain that was activated by touching the leg of a person in a brain scanner also reacted if the subject was shown film of another person being touched on the leg. All this suggests that understanding the experiences and emotions of others involves the same neural circuitry that we require to have those experiences and emotions ourselves—in other words, that it is mediated by mirror neurons.

Mirror, mirror on the wall

Such observations lead to bigger questions, and one of the most pertinent concerns “theory of mind”, a grandiloquent term used to describe the extent to which one individual can understand and anticipate the intentions of another.

Two recent papers address this question. Marco Iacoboni, of the University of California, Los Angeles, and his colleagues employed a similar methodology to Dr Keysers's to study the human brain. Meanwhile Leonardo Fogassi and his colleagues at the University of Parma, in Italy, used monkeys and electrodes to watch the process in individual nerve cells (indeed, it was this group, led by Giacomo Rizzolatti and Vittorio Gallese, which was responsible for discovering mirror neurons this way in the first place).

Both papers showed that the mirror-neuron activity is context-dependent in a way that suggests the experimental subjects not only recognise particular movements, but also understand the intention behind them. Watching someone grasping food or drink is a well-known stimulus of mirror-neuron activity. Dr Iacoboni's study, published in *Public Library of Science Biology*, showed, though, that there is far more such activity in someone's brain when they see a teacup being grasped in the context of a scene that includes biscuits, milk and a teapot (which suggests the grasping hand belongs to someone who is about to drink and eat), than when the scene contains empty plates and vessels (which suggests the hand belongs to someone who is clearing up).

Dr Fogassi's paper in *Science* has similar results for monkeys (though the context is grasping a pellet that sometimes is and sometimes is not made of food, rather than a tea party). This suggests that monkeys' mirror neurons, too, are capable of distinguishing intentions.

The idea that a lack of mirror-neuron activity is at least part of the cause of autism, has also received support recently. Eschewing brain scanners and implanted electrodes, Vilayanur Ramachandran and his colleagues at the University of California, San Diego, studied brainwaves believed to be associated with mirror neurons by pasting surface electrodes on their volunteers' scalps and faces, and monitoring them while those volunteers performed different tasks.

Ten of the volunteers were men and boys of normal intelligence, but who suffer from autism (not all those with the condition have other, more damaging, symptoms such as low intelligence as well). The other ten were individuals

of similarly normal intelligence who had no autistic symptoms. The researchers were interested in the so-called mu-wave (an electrical oscillation in the brain that has a frequency of between eight and 13 cycles a second). In healthy people mu-waves are suppressed not only when actions are executed, but also when they are observed or even simply imagined. It is this suppression that has led researchers in the field to believe mu-waves might be connected with mirror-cell activity. Dr Ramachandran and his colleagues therefore wanted to see what happened to mu-waves in people with autism.

Once they had wired their subjects up, they asked them to perform four tasks. One was for the subject to watch one of his own hands as he opened and closed it in a sort of slow-motion shadow-puppet routine, about once a second. The other three tasks involved watching video clips. These clips were of someone else making the same hand motion, of balls bouncing into each other and apart, and of visual “static” (the sort of thing seen on a badly tuned television).

As the team report in their paper in *Cognitive Brain Research*, the non-autistic individuals all responded in the expected way: both moving their own hand and watching someone else's hand move caused mu-suppression in their brains, while the other two video clips had no effect. But in people with autism, only their own hand movements caused the mu-waves to be suppressed. Watching other people's hands move had no more effect than watching the balls and the static. That suggests there is something awry with their mirroring system.

This finding followed on the heels of another study investigating mirror-neuron activity in autists, published in *Current Biology* by Hugo Théoret and his colleagues at Harvard University. Dr Théoret wanted to see whether watching video clips of people moving their fingers changed the excitability of neurons in the part of the brain where action-sensitive mirror neurons are found. This experiment also studied ten autists of normal intelligence and ten controls. Once again, the mirror neurons in the autistic volunteers failed to respond to the hand actions of others in the way that those of the controls did.

All of these experiments are focused on relatively simple stimuli that researchers can reproduce and measure easily. Whether mirror neurons are involved in more complex calculations of motive—and, most significantly, in those calculations made when someone is trying to manipulate the behaviour of someone else—remains to be seen. But it seems a plausible hypothesis, and the tools to test it more thoroughly are now in place. Understanding what someone else thinks is the necessary first step to deceiving or even controlling them. The actions of mirror cells may have wide ramifications.

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Human pheromones

The perfumed garden

May 12th 2005
From The Economist print edition

Support for the idea of human sex pheromones

IT IS every perfume-maker's dream to find a spray that plugs straight into the hypothalamus—the part of the brain responsible for libido. Unfortunately, evidence for such brain-manipulating chemicals in humans is inconclusive. But it is not non-existent. General body odour, which is controlled by part of the immune system called the major histocompatibility complex (MHC), is known to be involved in sexual attractiveness in several species, and some research suggests mankind is one of them. In addition, studies using brain scanners have found that smelling a chemical called androstadienone (AND) activates the hypothalamus in women, but not in men, whereas smelling estratetraenol (EST) activates it in men, but not women. AND is a derivative of testosterone that is found in men's sweat. EST is a cousin of oestrogen found in women's urine.

Two results that have emerged this week strengthen the idea that all these odours are indeed sexual—but with a novel twist because it comes from work that includes homosexuals as well as heterosexuals. A forthcoming paper in *Psychological Science*, by Charles Wysocki of the University of Pennsylvania and his colleagues, shows that gay men prefer the smell of sweat collected from the armpits of gay men and heterosexual women to that collected from heterosexual men. Similar odours from gay men, however, were the least preferred by heterosexual men and women. Meanwhile, Ivanka Savic of the Karolinska Institute in Stockholm and her colleagues reported in this week's *Proceedings of the National Academy of Sciences* that the hypothalamuses of gay men in brain scanners respond to AND and EST in a similar way to those of straight women.

The second result is, perhaps, the less surprising. If the brains of gay men are attracted to other men through sight and sound, then why not through smell, too? But the idea that men can, in effect, smell gay is harder to explain. It may be because the MHC is affected in the womb by exposure to testosterone. If homosexuality is caused by unusual in-utero testosterone exposure (a plausible hypothesis), then the system that controls body odour may change in related and detectable ways.

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Awards

Winning tactics

May 12th 2005
From The Economist print edition

A big new science prize arrives to challenge the Nobels

WHEN it comes to science awards, nothing beats the prestige of a Nobel prize. But recently Sweden, which dishes out the Nobels, has started to feel a squeeze from its neighbours. Last year the Finns launched the Millennium Technology prize—they awarded Tim Berners-Lee €1m ($1.2m) for inventing the world wide web—and at the beginning of this month, the Norwegians announced that they would start awarding a prestigious new prize for science, the Kavli prize, in 2008.

The prize is funded by Fred Kavli, a 77-year-old Norwegian philanthropist who made his fortune in America selling sensors to the aerospace and automotive industries. Having arrived in the country in 1956 with $300 in his pocket and an education in physics from the Norwegian Institute of Technology, he managed to set up the Kavlico Corporation just two years after he arrived. In 2000, Mr Kavli sold the business for $340m. “I wanted to do something of value for mankind,” he says.

Today, the California-based Kavli Foundation funds research institutes at ten universities, including Yale, Columbia, and Stanford, and funds professorships. In the past five years, the foundation has given away $75m. And last year, three scientists linked to the Kavli research institutes—Frank Wilczek, Richard Axel and David Gross—won Nobel prizes for science.

Some observers have criticised the Nobel Foundation for being slow to respond to great achievements. Mr Kavli claims that his prize will be more daring, a comment that piqued Gunnar Oquist, secretary-general of the Royal Swedish Academy of Sciences (the organisation responsible for awarding the Nobel prizes). Mr Oquist retorted that “we have been both brave and extremely careful in the choice of Nobel laureates during 100 years. Just look at the track record.”

Yet while it took the Nobel committee a mere 16 years to award Einstein a prize for his work on the photoelectric effect, the physicist who discovered the neutrino, Fred Reines, waited 39 years. And poor Ernst Ruska, at the Fritz-Haber-Institut der Max-Planck-Gesellschaft in Berlin, designed the first electron microscope in 1933 but only received his Nobel prize in 1986. Clearly, one of the qualifications for winning a Nobel—a prize that is not granted posthumously—is long life.

Originally, the Nobel prize was awarded to “those who, during the preceding year, shall have conferred the greatest benefit on mankind,” but the “preceding year” bit was dropped because it was seen as impossible to judge scientific merit in the space of one year. David Auston, president of the Kavli Foundation, says there has to be a trade-off between recognising science that is current, and the need to be certain that it has been verified so that there is little doubt of its impact.

The Kavli prizes will be awarded biennially and will consist of a scroll, a medal and $1m (the Nobel prize is worth

about $1.3m). The awards will be presented in co-operation with the Norwegian Academy of Science and Letters, the Norwegian Ministry of Education and Research, and the Norwegian Ministry of Foreign Affairs. Unlike the Nobels, which are awarded for everything from science to literature, the Kavlis will be awarded only for astrophysics, nanoscience and neuroscience. Mr Kavli chose to focus on these three fields as he believes they will eventually be of great benefit to humanity.

The rivalry between Norway and Sweden is legendary, so is this latest prize just Norwegian one-upmanship? While Mr Auston agrees that there is a “friendly rivalry” between the countries, he says that there are important reasons why Norway is keen to embrace Mr Kavli as a prodigal son. Historically, the country has depended on natural resources, but if Norwegians want a secure future, they have to embrace science and technology and links with the international scientific community. And if they get up the Swedes' noses while doing so, well that's just the cherry on top.

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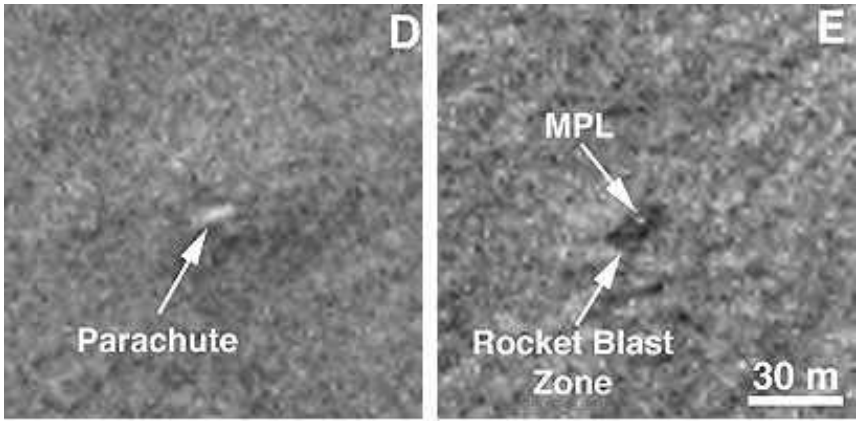
Exploring Mars

Lost and maybe found

May 12th 2005
From The Economist print edition

NASA-JPL-MSSS



Has a missing Martian probe been spotted?

On December 3rd 1999, a spacecraft called *Mars Polar Lander* (MPL) was supposed to touch down near the red planet's southern pole. But just after entering the atmosphere it vanished. Now, using a camera onboard an orbiting probe called *Mars Global Surveyor*, scientists think they may have spotted something on the surface of Mars that is a good candidate for the remains of this NASA craft. On May 5th, it was announced that MPL had been spotted in pictures of Mars taken soon after the craft went missing. The pictures are not much to look at. But the company that operates the orbiting camera, Malin Space Science Systems of San Diego, California, says that the white smudge looks like the craft's parachute. It is similar in brightness to other parachutes on Mars made of the same material. The white smudge is also several hundred metres from a disturbed bit of ground that looks as though it has been singed by a rocket. At the centre of this image is a single dot that could be the intact remains of MPL.

Further work is needed to prove that this is, indeed, a picture of MPL and not wishful thinking over a grainy handful of pixels. And plans are already underway to take higher resolution images of this spot. But the same group has already used this orbiting camera to locate the Mars rovers *Spirit* and *Opportunity*. In addition, the team has located all three of the other successful Mars landers, including *Viking Lander 2*—whose discovery was also announced on May 5th. That, naturally, leaves one important question: where is *Beagle 2*, the ill-fated British lander? Colin Pillinger, a planetary scientist at the Open University in Britain, and the creator of *Beagle 2*, says the San Diego camera group has been looking “assiduously” for the lost craft since 2003, but without success. It may be that the tiny craft is simply too small for the camera to spot, and will remain lost in space until higher resolution imagery of Mars is available.

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Unconventional wisdom

Curiouser and curiouser

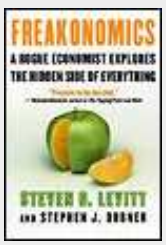
May 12th 2005
From The Economist print edition

Many economists don't care whether sumo wrestling is fixed, or whether drug dealers prefer to live with their mothers. It is their loss

WHAT a shame about that title. “Freakonomics” is bound to dampen the spirits of any intelligent reader, suggesting an airport-ready, dumbed-down romp—the back cover would inevitably call it a romp—through the bogus theories of some semi-literate phoney economist. But that is not this book at all. Steven Levitt is no “rogue economist”, still less a phoney one; and his book, praise be, does not try to explore “the hidden side of everything”. Far more intelligent, modest and orthodox than it pretends, the book is a delight; it educates, surprises and amuses. It shows, in fact, what plain old-fashioned economics can do in the hands of a boundlessly curious and superbly skilled practitioner.

Mr Levitt is a professor at the University of Chicago, and a winner of the John Bates Clark Medal, awarded by the American Economic Association every two years to the best economist under 40. Not many rogue economists achieve either distinction. Stephen Dubner, Mr Levitt's co-author, is a contributor to the *New York Times* magazine, and presumably responsible for the book's frequently tiresome

Freakanomics: A Rogue Economist Explores the Hidden Side of Everything
By Steven D. Levitt and Stephen J. Dubner



William Morrow; 256 pages; $25.95. To be

breathlessness. And it might be Mr Dubner's fault that the book often veers without due process between being about Mr Levitt and being by him, which is jarring. But the material triumphs over these flaws of style. Indeed, the material is quite fascinating.

published in Britain by Penguin/Allen Lane in July

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Mr Levitt's speciality is to spot interesting questions that arise in apparently unrelated fields—questions that it may not even have occurred to anyone else to ask—and then answer them with dazzling ingenuity. The man's curiosity is unbounded in two complementary senses. He finds intriguing anomalies in extraordinarily arcane places—for instance, in sumo wrestling and in alternative spellings of the name Jasmine, to name just two topics examined in this book. And then he digs for explanations with total disregard for the demands of political correctness. You might say that he rejoices in being politically incorrect, except that he seems not to care much one way or the other.

One of his best-known, and in some quarters notorious, findings concerns America's falling crime-rate during the 1990s. Towards the end of that decade, confounding the expectations of most analysts, the teenage murder rate fell by more than 50% in the space of five years; by 2000, the book notes, the overall murder rate was at its lowest for 35 years. Other kinds of crime fell too. Why? Some gave the credit to economic growth; others to gun control; still others to new methods of policing, or to greater reliance on imprisonment, or to increasing use of the death penalty, or to the ageing of the population.

Mr Levitt goes carefully through these various explanations, checking them against the evidence. He finds that some of them do offer a partial explanation (more jail time, for instance), whereas others do not (greater use of the death penalty, new policing methods). But the most intriguing finding was that one of the most powerful explanations had not even been broached. That explanation was abortion.

The reasoning is simple enough. In January 1973, the Supreme Court made abortion legal throughout the United States, where previously it had been available in only five states. In 1974, roughly 750,000 women had abortions in America; by 1980, the number was 1.6m (one abortion for every 2.3 live births). “What sort of woman was most likely to take advantage of *Roe v Wade*?” the book asks. “Very often she was unmarried or in her teens or poor, and sometimes all three...In other words, the very factors that drove millions of American women to have an abortion also seemed to predict that their children, had they been born, would have led unhappy and possibly criminal lives...In the early 1990s, just as the first cohort of children born after *Roe v Wade* was hitting its late teen years—the years during which young men enter their criminal prime—the rate of crime began to fall.”

The theory is the easy part, once you dare to articulate it. Testing it is quite another matter. But the book moves methodically and persuasively through the statistical evidence. It turns out, for instance, that crime started falling earlier in the states that legalised abortion before *Roe v Wade*; that the states with the highest abortion rates saw the biggest drops in crime (even controlling for other factors); that there was no link between abortion rates and crime before the late 1980s (when unborn criminals, as it were, first began to affect the figures); and that a similar association of crime and abortion has been found in other countries.

The book ranges over cheating teachers, corrupt sumo wrestlers and lying on-line daters. It asks, among other things, whether Trent Lott is more racist than the typical contestant on “The Weakest Link”. It examines parallels between estate agents and the Ku Klux Klan. It asks why drug dealers tend to live with their mothers. Always it finds questions that are mischievously intriguing in themselves but that also shed light on broader matters as well—and then it finds ingenious ways of answering them.

“Freakonomics” looks in particular detail at racial aspects of parenting, which is where those variant spellings of Jasmine (or Jazmyne, or Jazzmin, and so on) come in. Examining the data, Mr Levitt tabulates the “blackest” names (Imani tops the list for girls, DeShawn for boys) and the “whitest” (Molly and Jake). Using all his ingenuity in finding and exploring data, he then examines whether being given a distinctively black or white name affects one's prospects in life. Does it? Surprisingly, perhaps, no. A boy named Jake will tend to do better than one called DeShawn, but that is because he is less likely to have been raised in a low-income, low-education, single-parent household, and not because the name itself confers any advantage.

So much for boys' names; what about book titles? Does a stupid title herald a worse-than-average book? Probably—if only because books with bad titles tend to be written by intellectually disadvantaged authors. But if a really clever author were to write a book and give it a really stupid title, it might turn out as well as this one.

By Steven D. Levitt and Stephen J. Dubner.
William Morrow; 256 pages; $25.95. To be published in Britain by Penguin/Allen Lane in July

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Governing Britain

Crisis? What crisis?

May 12th 2005
From The Economist print edition

SIR CHRISTOPHER FOSTER has advised Labour and Conservative governments since 1965, and was involved in such contentious initiatives as the poll tax and railway privatisation. In his view, the main consequence of the revolution in government since Margaret Thatcher took over in 1979 has been to weaken the institutional limitations upon the power of the prime minister.

The cabinet, Parliament, the civil service and local government—all have been emasculated. There has, admittedly, been a counterbalance in the growing influence of the courts, but this has been "far from enough to offset the decline in the other checks and balances". Instead of subsidiarity—devolution to the lowest possible level of government—the reverse operates, or what might be called the cascade principle, with power seeping upwards not downwards. Whoever follows Tony Blair, he writes, should lose no time in restoring the traditional system, which served to protect both liberty and good government.

British Government in Crisis
By Christopher Foster

Hart Publishing; 311 pages; $39.90 and £19.95

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Sir Christopher provides a cogent critique of the decline of the cabinet. The process by which the poll tax was agreed was, he believes, a textbook illustration of the dangers of prime ministerial wilfulness. However, Andrew Adonis, the former head of the Number 10 policy unit, and now a junior education minister, co-authored a book claiming that, on the contrary, it showed the weaknesses of the traditional model. This reinforced Mr Blair's view that the solution lay in greater centralisation in Downing Street, or in what one adviser called "a change from a feudal system of barons to a more Napoleonic system". The result is that ministers have lost both importance and status, and are in danger of becoming little more than agents of the prime minister.

Sir Christopher is right to stress the importance of impartial civil service advice to provide "institutional scepticism", or the grit in the machine. The minister/civil servant relationship is, however, being subverted by special advisers who increasingly are replacing officials "as ministers' alter egos" with "painful consequences" for policymaking. With traditional checks being eroded, there is now far too little testing of new initiatives, and the quality of government is likely to suffer as a result.

Reuters

Sir Christopher's picture is, however, overdrawn in places. He is perhaps too pessimistic about parliamentary accountability. The select committees established in 1979 have greatly improved scrutiny over the executive; and, as Professor Philip Cowley of Nottingham University has shown, members of Parliament, far from being Mr Blair's poodles, have been much more willing to dissent since 1997 than the knights of the shires and trade-union hacks who peopled the back benches in

the 1950s. The trouble is that the massive rebellions on the Iraq war, foundation hospitals and top-up fees for university students proved ineffective, since the Blair government was cushioned by landslide majorities. That, however, was a consequence of the electoral system, not of any decline in the status of Parliament.

Nor is it clear that the weakening of cabinet government need be permanent. Both Baroness Thatcher and Mr Blair refashioned the cabinet system, as previous premiers have done, to suit their particular temperaments. A post-Blair premier might well restore the traditional model, as indeed John Major did after Margaret Thatcher, when a “cabinet of vipers” was replaced by a “cabinet of chums”.

Sir Christopher is careful to warn that his book is not intended as “a rhapsody for a bygone age”. Some will argue that the revolution in government has led to better outcomes than in his golden age, the years before 1979, when Britain appeared ungovernable. Moreover, an author who says that we are badly governed will never be short of an audience. Nevertheless, “British Government in Crisis” is an important critique, and will be required reading for those who will have to shape Britain's institutions in the post-Blair era which we may soon be entering.

By Christopher Foster.
Hart Publishing; 311 pages; $39.90 and £19.95

Hands up for centralisation

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Augustine of Hippo

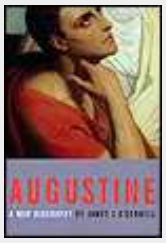
Warrior of the word

May 12th 2005
From The Economist print edition

LORD, how right those early Christians were. And how wrong everyone else, not least their fellow Christians. And didn't they just know it. Today's Trotskyite factions ferociously dispute their rival claims to be the true and sole heirs of the butcher of Kronstadt. Claiming a nobler heritage, no doubt, but with not vastly more brotherly love, the early fathers of the church did likewise.

One such was Augustine, from 396AD to his death in 430, bishop of Hippo, a town in the far north-east of what is now Algeria. Few people today know more of him than his engaging confession that, as a youth, he had invited God to make him virtuous but not just yet. A handful maybe have heard of “The City of God”, in which he set out the distinction between those who were inside and the pagans (some of them Christian) who were not. Hardly any will have set eyes on even five lines of 5m words he left behind. Now learn more from one who has, James O'Donnell, provost of Georgetown University, who has written a massively scholarly —there are 629 footnotes—but lively biography.

Augustine: A New Biography



HarperCollins; 396 pages; $26.95. Profile Books; £25

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Augustine was born in 354AD in North Africa, studied philosophy and rhetoric, fell for Manichean dualism, went at 28 to Rome, then Milan, and there discovered Christianity. Baptised in 387, he soon returned home, became a priest, and then a bishop, in an atmosphere well suited to bring out the worst (and, less certainly, the best) in a brilliant, ardent, combative and deeply read believer. Which it did.

Then, as now, there was not a church but churches—though none of them claimed supremacy. North Africa's Christians were split. The large majority looked back to an early 4th-century bishop, Donatus; a few to his rival, Caecilian. Enter the new bishop. Augustine was both a Caecilianist—today we'd say a Catholic—and determined to restore order, his order, and impose authority in his diocese. He did so, with sermons by the quire and reams of controversy, all recorded by an army of scribes. And, in the end, with appeal to imperial authority and force.

And what were the rivals split about? Well, the Donatists thought sinners must be re-baptised, the Caecilianists that one baptism was for ever. Over this pinhead, not just Christian ink but blood was spilt; not as much or cruelly as in the “crusade” set afoot by Pope Innocent III against the Albigensian heretics, or in Europe's later ghastly wars of religion. But enough, surely, that Jesus wept.

Even as he was winning this battle Augustine set about another, against Pelagius. Who he, you ask? Or Petilian or Priscillian or Julian of Eclanum, other victims of Augustine's pen, driven by the righteous certainty that he knew best. Or even the earlier Origen or Arius? And did the points of difference matter anyway? To Augustine and his opponents, like today's Trotskyites, yes, enormously.

Indeed, the church having more divisions and longer life-expectancy than Marxism, they matter still. Time has labelled the losers heretics. Mr O'Donnell does well to make plain how much less clear-cut orthodoxy was in 400AD. And oddly, Augustine, rightly seen in some matters as the father of Catholicism, won his anti-Pelagian battle but in the end lost the war. Pelagius thought each man free to choose good or evil. To Augustine that choice was preordained—an idea closer to Calvinism than to those, today, of Rome.

One war, alas, Augustine did not lose. Like many church notables then and now, he was obsessed with the sins of the body. Few who smile at the engaging young man seeking virtue postponed will know how in the end he achieved it: by dumping his (at least common-law) wife. Some might think that a sin of the spirit.

HarperCollins; 396 pages; $26.95. Profile Books; £25

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Shipwrecks and wreckers

Whisky galore

May 12th 2005
From The Economist print edition

A WRECKER, says the Oxford English Dictionary, is someone “who causes shipwreck, for the purposes of plunder by showing luring lights or false signals” or “a person who makes a business of watching for and plundering wrecked vessels.”

In her grimly fascinating book, Bella Bathurst tells the story of British wreckers and shipwrecks over the past 300 years. Adding meat to the bones of myth, she uncovers tales of “grand pianos sitting unplayed in hovels, of crofts fitted with silver candelabra, and, more recently, of an entire island dressed in suspiciously identical shirts.” She investigates rumours of false lights and false foghorns, false harbours and false dawns, and of coastlines rigged meticulously as stage sets.

According to the *Shipwreck Index of Great Britain*, there are between 30,000 and 33,000 wrecks around the British coast. It is no surprise that ships ran aground or sank with such tragic frequency. Rocks, reefs and sandbanks lie in wait for unsuspecting vessels, violent weather regularly batters the shore and, before the introduction of accurate charts, navigation was an often haphazard science. All this provided ample fare for wreckers whose livelihoods often depended on the bounty they could reap from nautical disasters.

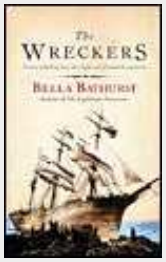
The author bases her book around interviews with nearly 200 people who have a strong connection to the sea. She visits the Scilly Isles and the Western Rocks, “a giant hell-mouth ringed with black-tipped fangs”. She discovers the Pentland Firth where the North Sea and Atlantic race each other twice a day in “a liquid riot”. Here, in 1931, a 6,000-ton freighter, the *Pennsylvania*, was wrecked. Soon after, her cargo of slot machines, spark plugs, clothing, tobacco, watches and car parts was silently removed and hidden in the haystacks, oatfields, lochs and caves of Stroma until the customs men and coastguards had cleared off.

Britain's most perilous nautical hazard, however, is the Goodwin Sands. Known as the “ship swallower”, this 40-square-mile mass of endlessly shifting quicksand can suck down a large vessel clutched in its maw in less than an hour. The sands soon became a “mecca for wreckers” based in Kent's coastal towns.

The author explains that wreckers were not so much vicious as desperately poor, and that coastal communities saw ships' cargoes as theirs for the taking because they would otherwise be consigned to rot on the seabed. Despite rumours, she finds little evidence of ships being lured to their doom by false lights, or of wreckers drowning shipwreck victims as they struggled for shore.

Does wrecking still happen? Richard Davies, ex-coxswain of the Cromer lifeboat on Britain's east coast, whose

The Wreckers: A Story of Killing Seas, False Lights and Plundered Ships
By Bella Bathurst



HarperCollins; 326 pages; £16.99. To be published in America by Houghton Mifflin in July

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fisherman/lifeboatman family this reviewer remembers from childhood holidays, tells Ms Bathurst that it does. “If they [the Royal National Lifeboat Institution] were called out to a wreck, and they'd got the crew off safely and they knew the boat was going to sink, what's to stop them pulling the clocks off the wall, taking the barometer, the compass and the prize?” Although its modern image is one of “spotless heroism” the RNLI, which has saved more than 136,000 lives since it was set up in 1824, grew out of the Norfolk beach companies whose men combined the role of pilot, fisherman, lifeboatman and wrecker “in one semi-official package”. In today's often sanitised world, the long-standing coastal tradition of wrecking may still live on.

By Bella Bathurst.
HarperCollins; 326 pages; £16.99. To be published in America by Houghton Mifflin in July

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New Asian cinema

True colours

May 12th 2005 | UDINE
From The Economist print edition

A feast of Far Eastern films offers up two new sensations

IF YOU want to be among the first to see the cream of new Asian films, then the small northern Italian town of Udine at the end of April is the place you want to head for. Here, in a state-of-the-art theatre complex modelled on a 19th-century opera house, Gu Changwei, a Chinese director, showed “Peacock”, the film that many believe will be this year's most memorable offering from the Far East.

A portrait of China as it emerges from the Cultural Revolution as seen through the eyes of a small, close-knit, rural family, “Peacock” is particularly memorable for its naturalistic depiction of some of the oddities of Chinese village life. Toddlers are lined up on potties and ritually wiped by an army of nursemaids; young girls learn the perils of secret assignations in the woods and the fact that no favour is given unrewarded.

The richness of everyday life bursts from the screen with Dickensian vitality. The images never draw particular attention to the way they have been framed or coloured. Take any individual shot and nothing seems special; take them all in sequence and you have something quite rare—a complete evocation of a nation at a particular moment in time.

The title—a metaphor for how China seemed to be spreading its wings with the end of the Cultural Revolution—is the closest the film comes to symbolism. A real peacock appears at the end of the film. It is still winter-time and, as everyone knows, peacocks don't display in winter. But the camera waits and waits and waits and the miraculous suddenly, gloriously occurs.

It is no surprise that Mr Gu, the director, was trained as a cameraman and has shot some of the most famous films made by that generation of film-makers who first put Chinese cinema on the map, including Zhang Yimou's “Red Sorghum” (1987), and “Farewell, My Concubine” (1993), which Chen Kaige adapted from a novel by Lilian Lee. He also spent time in Hollywood and worked on Robert Altman's “The Gingerbread Man” (1998) before returning to China to make “Peacock”, his first film, last year. It is, in every way, a wonderful debut.

The other big discovery at Udine was also a first feature, also realist and also with Dickensian undertones, though in this instance it is the Dickens of intense domestic drama and high-powered melodrama rather than sweeping social description. “A Family”, by Lee Jung-chul, is a South Korean low-life drama whose quality spread by word of mouth from Seoul, where it was first shown, only to become this year's other unexpected hit before the predominantly western audience at Udine.

The raw material—gangsters, single parenthood and attempted murder—could not be more lurid, but the focus is rather on the relationship between a one-eyed cop and the daughter who inadvertently robbed him of his sight. Apparently unforgiving and contemptuous of each other's lifestyles, the loyalties of the two protagonists prove in the end to be the opposite of those they choose to reveal.

It is this aspect of the film, touching on such nobler themes as self-sacrifice, the discovery of good in the least expected quarters and of a love hidden almost out of sight, that lifts it clear of its seemingly sordid roots.

The climax turns on a transference of guilt, such as Alfred Hitchcock often invoked in his films “Strangers on a Train” and “I Confess”. The daughter agrees to murder a police officer in order to discharge a gangland debt that she cannot repay. But her father resolves to commit the murder for her to save her soul. Nothing works quite as planned, but it is not just Hitchcock but the end of Dickens's “A Tale of Two Cities” that comes to mind.

“A Family” pulls off an ending that is both happy and tragic as the camera pulls back to show that the daughter has at last recognised the sacrifice made on her behalf. As with last year's “Samaritan Girl”, it is a clear pointer that South Korean movies now have the ability to astonish.

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Marilyn Monroe by Eve Arnold

The snapper and the showgirl

May 12th 2005
From The Economist print edition

A show of hitherto unseen pictures of Marilyn Monroe

IT WAS a typical Monroe moment. Two hours late for a press conference and unable to leave her room, the film star was having a crisis of confidence. When she finally emerged, Laurence Olivier, her co-star in “The Prince and the Showgirl”, dominated the proceedings. Never one to be upstaged, Ms Monroe waited a few minutes before her delicate shoulder strap broke, diverting press attention completely. Whether the incident was intentional will never really be known, but it certainly put Marilyn back in the spotlight.

Eve Arnold, who had been photographing the star since the early 1950s and with whom she had forged a close friendship, was there to capture the moment. Ms Arnold's moments live on in a new exhibition of previously unseen Monroe photographs, including the first picture Ms Arnold ever took of the actress at a studio ball in 1951. Other previously unseen images include Monroe struggling to learn her lines on the set of “The Misfits” and her joyful reaction on learning from Clark Gable that his wife was expecting a baby.

Ms Arnold first became associated with the Magnum photographic agency in 1951 and quickly made her mark as a skilled and fearless photojournalist. Early assignments took her to China and Mongolia and to Harlem, where she photographed Malcolm X. Her natural empathy helped her gain the confidence of her subjects, but it was her ability to be invisible that gave her artistic freedom. Elliott Erwitt, who worked with Ms Arnold in the 1950s, says: “She was a die-hard journalist but there was something very unthreatening about her that made people open up. Personal insight was her character trait.”

Ms Arnold's tireless exploration to take the consummate photograph has, over time, only added to the value of her work. There is talk of taking the show to continental Europe and America. Eve Arnold may be 93 and frail, but her photographs still carry a knockout punch.

“Marilyn Monroe by Eve Arnold” is at the Halcyon Gallery, Bruton St, London, until May 28th and at the Halcyon Gallery in Harrods from May 30th-June 17th

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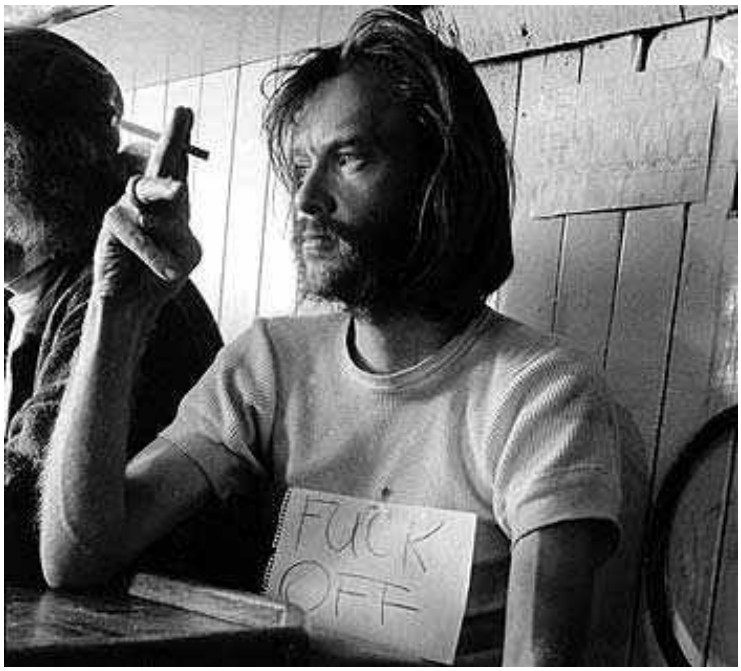
Obituary

Bob Hunter

May 12th 2005
From The Economist print edition

Robert Keziere-Greenpeace



Bob Hunter, inspirer of Greenpeace, died on May 2nd, aged 63

THERE seemed nothing especially odd about the red pick-up truck that stopped outside Bob Hunter's farmhouse in the summer of 1969. True, the back had been customised as a cedar-shingle hut, complete with a crooked stove-pipe. But this was 1969, outside Vancouver, a place then home (as Mr Hunter described it later) to the heaviest concentration of "tree-huggers...garbage-dump-stoppers... ageing Trotskyites...vegetarians, nudists [and] Buddhists...in the world." Fairly typical, too, was the man who stepped out of the truck. He had long hair, a long beard, wore moccasins, and was a dulcimer-maker. He handed Mr Hunter a book of Indian lore called "Warriors of the Rainbow", and drove away again.

Mr Hunter filed the book on a shelf, beside the "I Ching" and "The Tibetan Book of the Dead". Like most of his generation, he was into that kind of reading, along with Jack Kerouac, Marx, Marshall McLuhan, Jung, and pretty well anything out of the French left. By his own account, he did not read "Rainbow Warriors" properly until, in 1971, he found himself in a fishing boat in the North Pacific, on his way to stop the United States testing nuclear weapons on Amchitka Island off the coast of Alaska. The *Phyllis Cormack*—frail, rusting, her rigging grey with mould, with panels reading "Green" and "Peace" dangling from her bridge—hit a gigantic wave, and the dream-

book flew into Mr Hunter's hands.

At intervals on the terrifying voyage he spread the word to his colleagues. They were the Rainbow Warriors of Indian legend, who would come to heal the world when it was sick. That name, and the theme of aboriginal wisdom about nature, thus entered the history of environmental activism. So too did the name of a new body, “Greenpeace”, fashioned from the boat's alias, which Mr Hunter proposed as they limped back to port.

The environmental movement became so huge in the 1970s, and remains so substantial (Greenpeace now has more than 2.5m members, and a presence in 40 countries) that it is sometimes hard to credit the randomness of its beginnings. As in many another do-gooding movement, its founder-members rapidly fell out with each other. But most credited Mr Hunter with the spark and the ideas, some of them outrageous, that took a mixed bag of hippies, whale-savers, Quakers and disarmers out of a Vancouver basement and into the headlines of the world's press.

Mr Hunter joined the protesters in 1969, when he was a columnist for the *Vancouver Sun*. He immediately got involved in big-time banner-making against the American tests in the Aleutians, but it was his presence on the *Phyllis Cormack*, alias the *Greenpeace*, that turned the tide. As he filed his copy home, the voyage of one frail craft against the world's foremost nuclear power became a media event, cheered on by the Canadians and increasingly embarrassing to the United States. Within a year, the nuclear tests had been abandoned, and President Richard Nixon had turned Amchitka into a nature reserve.

Finding he preferred the tiller to the typewriter, Mr Hunter abandoned journalism for a while. Instead he led expeditions to the Newfoundland pack-ice, where he daubed baby seals with paint to make their pelts worthless, and to the whaling grounds of the Pacific, where, as he bobbed in a dinghy in front of the Russian fleet, his hair was neatly parted by a Soviet harpoon. Some in Greenpeace thought the organisation ought to focus only on disarmament, as it had begun. But Mr Hunter, as its first president from 1973 to 1977, proposed to keep it mischievous on as many fronts as possible.

The medicine man

Mischief looked likely early in his life. He could not get on with school in Winnipeg, preferring to scribble novels, and dropped out early. He stayed some months in Paris as a young man, trying to write, only to find later that his best novel, “Erebus”, came from his time spent working in a Winnipeg slaughterhouse. Before taking up journalism, he was briefly jailed for selling encyclopedias without a licence.

In this rather feckless life, environmentalism became an all-absorbing cause. Mr Hunter read Rachel Carson's “Silent Spring”, about the effect of pesticides on the natural world, in 1962, and was converted. He would tell people that ecology was “the biggest revolution in human history” and believed that, if men continued to commit “crimes against the earth” nature would take its revenge, and wipe man out. After he left Greenpeace, in 1981, he continued keenly campaigning for it.

In the end, the most influential part of his character may have been his Indian blood. He was a mere 1/32 Kwakiutl, but intensely proud of it; proud enough to lead the Indians who sailed, in 1992, from Canada to the Caribbean to confront the recreated Columbus fleet and demand an apology from the Spanish government. Within the environmental movement he happily took the role of a mystic or, as he sometimes said, “a medicine man”.

Among the founding myths he invented for Greenpeace, none was stranger than that of the long-haired man in the red pick-up truck, leaving words that would catch fire later. Yet, on reflection, that hippy-shaman figure sounded awfully like Bob Hunter himself.

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Overview

May 12th 2005
From The Economist print edition

America's goods and services trade deficit narrowed to $55 billion in March, from a revised $60.6 billion the month before. Exports increased by $1.5 billion to set a record monthly total of $102.2 billion. Imports fell by $4.1 billion overall. Imports of goods from China fell to $16.2 billion, from just under $17 billion the month before.

America's labour market tightened in April. Firms added 274,000 workers to their payrolls, after hiring 146,000 the month before. The unemployment rate remained at 5.2%, but the working week lengthened to 33.9 hours, from 33.7 in March. Labour productivity (output per hour of work) increased by 2.6% in the first quarter, faster than the 2.1% gain in the last three months of 2004.

Germany posted mixed results. Industrial production fell by 0.8% in March, leaving it 1.6% higher than a year ago. The order books of manufacturers were surprisingly full, however. Orders grew by 2.2% in March, after a fall of 2.0% the month before. The country's trade surplus mounted to €15.1 billion ($19.9 billion) in March, from €13.2 billion in February. In **France**, industrial production fell by 0.5% in the year to March.

In **Britain**, industrial production slumped by 1.8% in the year to March, even as producer prices rose by 3.2% in the twelve months to April. The Bank of England held interest rates at 4.75%, for the ninth month in a row. It said its current growth projection was “a little weaker” than its last forecast in February.

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Output, demand and jobs

May 12th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.5	Q4	+ 0.6	+ 2.5	+ 3.2	– 0.4	Q4	+ 1.8	Q1	5.1	Apr	5.6
Austria	+ 2.1	Q4	+ 1.1	+ 2.0	+ 2.0	+ 4.4	Feb	+ 0.8	Feb	4.6	Apr	4.5
Belgium	+ 1.8	Q1	nil	+ 2.0	+ 2.2	– 5.9	Mar	– 2.8	Feb	12.3	Apr†	12.4
Britain	+ 2.8	Q1	+ 2.2	+ 2.4	+ 2.2	– 1.8	Mar	+ 2.7	Mar	4.8	Feb††	4.8
Canada	+ 3.0	Q4	+ 1.7	+ 2.7	+ 3.0	+ 3.8	Feb	+ 6.5	Jan	6.8	Apr	7.2
Denmark	+ 2.9	Q4	+ 3.2	+ 2.1	+ 2.2	– 4.5	Mar	+ 3.7	Mar	5.9	Mar	6.5
France	+ 2.4	Q4	+ 3.5	+ 1.9	+ 2.0	– 0.5	Mar	+ 1.5	Mar	10.2	Mar	10.0
Germany	+ 1.0	Q1	+ 4.1	+ 0.9	+ 1.5	+ 1.6	Mar	nil	Mar	11.8	Apr§	10.5
Italy	+ 0.8	Q4	– 1.7	+ 0.8	+ 1.4	– 2.9	Mar	– 0.8	Feb	8.0	Dec	8.2
Japan	+ 0.8	Q4	+ 0.5	+ 1.1	+ 1.8	+ 1.1	Mar	+ 1.2	Feb	4.5	Mar	4.7
Netherlands	+ 1.6	Q4	+ 0.1	+ 1.1	+ 1.7	– 2.9	Mar	– 2.7	Feb‡	6.6	Mar**	6.4
Spain	+ 2.7	Q4	+ 3.4	+ 2.7	+ 2.6	– 6.5	Mar	+ 1.8	Mar	10.2	Mar	11.1
Sweden	+ 2.0	Q4	+ 1.4	+ 2.8	+ 2.8	+ 4.4	Mar	+ 8.0	Mar	5.5	Mar†	5.8
Switzerland	+ 1.2	Q4	– 0.3	+ 1.2	+ 1.7	+ 4.7	Q4	– 3.0	Feb	3.8	Apr†	3.9
United States	+ 3.6	Q1	+ 3.1	+ 3.5	+ 3.2	+ 3.9	Mar	+ 3.0	Mar	5.2	Apr	5.5
Euro area	+ 1.8	Q4	+ 0.8	+ 1.4	+ 1.8	+ 0.6	Feb	+ 1.4	Mar	8.9	Mar	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	+ 1.1	Mar	+ 5.9	Feb	8.5	Mar†	9.5
Greece	+ 4.2	Q4	na	na	na	– 1.5	Feb	– 2.9	Jan	10.2	Dec	9.8
Iceland	+ 3.8	Q4	na	na	na	na		na		2.8	Feb†	3.6
Ireland	+ 2.8	Q4	na	na	na	– 5.7	Feb	+ 8.6	Feb	4.2	Apr	4.6
Luxembourg	+ 3.8	Q4	nil	na	na	+ 6.3	Feb	+ 2.6	Mar	4.6	Mar	4.2
New Zealand	+ 3.6	Q4	+ 2.4	na	na	+ 3.5	Q4	+ 6.8	Q4	3.9	Q1	4.2
Norway	+ 3.2	Q4	+ 6.1	na	na	– 7.0	Mar	– 2.7	Mar	4.5	Mar‡**	4.3
Portugal	+ 0.6	Q4	– 1.1	na	na	– 3.2	Mar	+ 3.0	Mar	7.1	Q4†	6.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Dec-Feb; claimant count rate 2.7% in Mar. §EU harmonised rate 9.5% in Mar. **Jan-Mar.

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Prices and wages

May 12th 2005
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2005	2006	latest	year ago	latest	year ago
Australia	+ 2.4 Q1	+ 2.0	+ 2.6	+ 2.7	+ 6.0 Q1	− 1.1	+ 3.0 Q4	+ 6.0
Austria	+ 2.9 Mar	+ 1.5	+ 2.0	+ 1.6	+ 2.6 Apr	+ 5.2	+ 2.2 Mar	+ 2.1
Belgium	+ 2.8 Apr	+ 1.9	+ 1.9	+ 1.7	+ 3.8 Mar	+ 2.3	+ 2.3 Jan	+ 1.9
Britain	+ 1.9 Mar*	+ 1.1	+ 1.8	+ 1.9	+ 3.2 Apr	+ 1.8	+ 4.7 Feb†	+ 4.9
Canada	+ 2.3 Mar	+ 0.7	+ 2.0	+ 2.1	+ 2.1 Mar	− 0.8	+ 2.5 Feb	+ 3.5
Denmark	+ 1.8 Apr	+ 0.8	+ 1.4	+ 1.7	+ 4.2 Mar	+ 0.3	+ 2.8 Q4	+ 3.5
France	+ 1.9 Mar	+ 1.7	+ 1.6	+ 1.6	+ 3.1 Mar	+ 0.3	+ 3.0 Q4	+ 2.7
Germany	+ 1.6 Apr	+ 1.6	+ 1.4	+ 1.1	+ 3.2 Apr	+ 2.4	+ 1.3 Feb	+ 1.9
Italy	+ 1.9 Apr	+ 2.3	+ 1.9	+ 1.9	+ 4.6 Mar	+ 0.7	+ 3.5 Mar	+ 2.8
Japan	− 0.2 Mar	− 0.1	nil	+ 0.3	+ 1.4 Mar	+ 0.2	+ 0.7 Mar	+ 2.2
Netherlands	+ 1.5 Apr	+ 1.4	+ 1.4	+ 1.0	+ 4.9 Mar	− 0.2	+ 0.7 Apr	+ 1.6
Spain	+ 3.4 Mar	+ 2.1	+ 2.9	+ 2.6	+ 5.1 Mar	+ 0.8	+ 2.6 Q4	+ 3.3
Sweden	+ 0.1 Mar	− 0.1	+ 0.6	+ 1.5	+ 2.5 Mar	− 1.4	+ 2.6 Feb	+ 3.0
Switzerland	+ 1.4 Apr	+ 0.5	+ 1.2	+ 1.2	+ 1.4 Mar	− 0.1	+ 0.9 2004	+ 1.4
United States	+ 3.1 Mar	+ 1.7	+ 2.8	+ 2.5	+ 4.9 Mar	+ 1.5	+ 2.7 Apr	+ 2.2
Euro area	+ 2.1 Apr	+ 2.0	+ 1.8	+ 1.6	+ 4.2 Mar	+ 0.4	+ 2.2 Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.0 Mar	− 0.6	na	na	+ 2.4 Mar	− 0.6	+ 3.0 Q4	+ 4.2
Greece	+ 3.4 Apr	+ 2.9	na	na	+ 4.7 Mar	+ 2.1	na	na
Iceland	+ 4.3 Apr	+ 2.2	na	na	+ 6.6 Apr	+ 2.7	+ 6.5 Mar	+ 3.8
Ireland	+ 2.1 Mar	+ 1.3	na	na	− 2.3 Mar	− 5.1	+ 5.1 Q4	+ 4.5
Luxembourg	+ 2.5 Apr	+ 2.1	na	na	+16.3 Feb	− 0.6	+ 0.6 Feb	+ 4.0
New Zealand	+ 2.8 Q1	+ 1.5	na	na	+ 3.4 Q4	− 0.1	+ 2.5 Q1	+ 2.2
Norway	+ 1.1 Apr	+ 0.4	na	na	+17.5 Apr	+12.3	+ 3.9 Q4	+ 3.9
Portugal	+ 2.2 Mar	+ 2.3	na	na	+ 4.7 Mar	+ 0.3	− 4.0 Mar	+ 1.9

* RPI inflation rate 3.2% in Mar. †Dec-Feb.

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Economic forecasts

May 12th 2005
From The Economist print edition

The Economist poll of forecasters, May averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2005	2006	2005	2006	2005	2006	2005	2006
Australia	1.9/3.4	2.7/3.7	2.5 (2.6)	3.2	2.6	2.7	−5.6(−5.7)	−5.0 (−5.1)
Austria	1.6/2.3	1.4/2.3	2.0 (2.1)	2.0 (2.1)	2.0	1.6	−0.6	−0.8
Belgium	1.1/2.5	1.7/2.7	2.0 (2.1)	2.2	1.9	1.7	3.4 (3.3)	3.3
Britain	2.2/3.0	1.7/3.0	2.4 (2.5)	2.2	1.8	1.9 (1.8)	−2.6(−2.7)	−2.6 (−2.7)
Canada	2.3/3.1	2.4/3.8	2.7	3.0	2.0 (1.9)	2.1	1.8 (1.7)	1.5
Denmark	1.5/2.6	1.6/2.5	2.1	2.2	1.4 (1.5)	1.7 (1.8)	2.2	2.1
France	1.5/2.2	1.7/2.4	1.9 (2.0)	2.0 (2.1)	1.6	1.6	−0.3(−0.2)	−0.1
Germany	0.4/1.2	1.0/1.8	0.9	1.5	1.4 (1.3)	1.1	3.1	2.9 (3.0)
Italy	0.4/1.5	0.6/2.2	0.8 (1.0)	1.4 (1.5)	1.9	1.9	−1.0	−1.1 (−1.0)
Japan	0.6/1.6	1.1/3.0	1.1	1.8 (1.9)	nil	0.3	3.6 (3.5)	3.6
Netherlands	0.7/1.5	1.0/2.2	1.1	1.7	1.4 (1.3)	1.0 (1.4)	3.5 (3.3)	3.5 (3.3)
Spain	2.3/2.9	2.3/2.9	2.7	2.6	2.9 (2.8)	2.6	−4.9(−4.5)	−5.0 (−4.5)
Sweden	2.4/3.3	2.5/3.2	2.8 (2.7)	2.8 (2.7)	0.6 (0.7)	1.5	7.0 (6.8)	6.4 (6.3)
Switzerland	0.9/1.6	1.0/2.0	1.2 (1.3)	1.7 (1.8)	1.2 (1.1)	1.2	11.9(11.5)	11.4 (11.5)
United States	3.3/4.0	2.5/4.0	3.5 (3.7)	3.2	2.8 (2.6)	2.5	−6.2(−6.1)	−6.0 (−5.9)
Euro area	1.1/1.7	1.4/2.2	1.4 (1.5)	1.8 (1.9)	1.8	1.6	0.5	0.5

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has again become gloomier about the euro area, which it now expects to grow by 1.4% in 2005 and 1.8% in 2006. Italy is forecast to grow by just 0.8% this year. The panel has lowered its forecast for America's growth this year from 3.7% last month to 3.5%. It has also become a bit more pessimistic about the growth outlook for Britain and Australia in 2005, and Japan in 2006. It has raised this year's inflation forecast for America from 2.6% in April to 2.8%. America's current-account deficit is expected to be 6.2% of GDP in 2005 and 6.0% in 2006.

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Money and interest rates

May 12th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (May 11th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.8	+ 8.2	Mar	5.69	5.49	5.17	5.40	6.05	6.40
Britain	+ 5.1	+10.3	Mar	4.84	4.38	4.36	4.50	5.10	5.21
Canada	+11.8	+10.8	Mar	2.47	1.98	3.09	4.23	5.13	5.56
Denmark	+15.6	+ 9.5	Mar	2.18	2.25	2.17	3.38	4.46	4.99
Japan	+ 4.6	+ 1.9	Apr	0.02	0.02	0.08	1.30	1.54	1.38
Sweden	+ 3.3	+ 3.6	Mar	1.91	1.99	2.21	3.36	4.68	3.06
Switzerland	– 5.6	+ 2.0	Mar	0.76	0.27	0.97	2.01	2.76	1.97
United States	+ 3.3	+ 4.9	Mar	3.15	1.07	3.67	4.22	4.79	5.27
Euro area†	+ 9.3	+ 6.5	Mar	2.13	2.08	2.20	3.33	4.27	3.82

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.55%, Japan No. 269 1.28%. Central bank rates: US fed funds 3.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

May 12th 2005
From The Economist print edition

2000=100

	May 3rd	May 10th*	% change on one month	% change on one year
Dollar index				
All items	132.3	132.5	– 1.6	– 3.1
Food	127.1	127.5	+ 1.1	–11.0
Industrials				
All	139.0	139.0	– 4.7	+ 8.2
Nfa†	129.6	128.1	– 1.2	–11.6
Metals	144.2	144.9	– 6.3	+21.4
Sterling index				
All items	106.1	106.7	– 1.5	– 9.7
Euro index				
All items	94.9	95.1	– 1.6	–11.2
Yen index				
All items	129.1	129.8	– 4.1	–10.1
Gold				
$ per oz	427.90	427.70	+ 0.1	+13.5
West Texas Intermediate				
$ per barrel	49.45	51.88	+ 0.4	+29.5

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

May 12th 2005
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Market indices

		2005		% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
	May 11th	high	low				
Australia (All Ordinaries)	3,958.6	4,255.8	3,905.5	+ 1.4	- 7.0	- 2.3	- 3.4
Austria (ATX)	2,594.4	2,781.6	2,415.0	+ 1.7	- 6.7	+ 6.7	+ 0.6
Belgium (Bel 20)	3,061.8	3,197.3	2,958.8	- 0.2	-16.8	+ 4.4	- 1.6
Britain (FTSE 100)	4,875.4	5,060.8	4,783.6	- 0.1	-29.6	+ 1.3	- 1.1
Canada (Toronto Composite)	9,446.4	9,927.2	9,006.2	- 0.3	-17.1	+ 2.2	- 2.0
Denmark (KBX)	287.4	294.6	257.8	+ 2.7	- 4.8	+11.5	+ 5.0
France (SBF 250)	2,754.7	2,855.6	2,633.6	- 0.1	-37.3	+ 4.6	- 1.4
(CAC 40)	3,979.5	4,124.4	3,816.1	- 0.2	-42.5	+ 4.1	- 1.8
Germany (DAX)*	4,244.2	4,428.1	4,178.1	- 0.5	-47.4	- 0.3	- 6.0
Italy (S&P/MIB)	31,116.0	32,856.0	30,645.0	- 0.5	-37.9	+ 0.7	- 5.1
Japan (Nikkei 225)	11,120.7	11,966.7	10,938.4	+ 1.1	-71.4	- 3.2	- 6.2
(Topix)	1,145.3	1,203.3	1,109.5	+ 1.2	-60.3	- 0.4	- 3.4
Netherlands (AEX)	352.8	379.8	347.0	+ 0.5	-49.7	+ 1.4	- 4.4
Spain (Madrid SE)	986.8	1,025.8	950.9	- 0.3	-13.9	+ 2.9	- 3.0
Sweden (Affarsvarlden Gen)	228.1	240.4	218.9	+ 0.5	-43.0	+ 3.1	- 4.7
Switzerland (Swiss Market)	5,919.9	6,030.5	5,669.6	- 1.4	-29.6	+ 4.0	- 1.9
United States (DJIA)	10,300.3	10,940.6	10,012.4	- 0.8	-12.1	- 4.5	- 4.5
(S&P 500)	1,171.1	1,225.3	1,137.5	- 0.4	-23.3	- 3.4	- 3.4
(NASDAQ Comp)	1,971.6	2,152.2	1,904.2	+ 0.5	-60.9	- 9.4	- 9.4
Europe (FTSEurofirst 300)†	1,071.8	1,107.6	1,038.6	- 0.3	-37.1	+ 2.9	- 3.0
Euro area (FTSE Euro 100)†	907.4	952.4	894.4	- 0.3	-41.5	+ 0.7	- 5.0
World (MSCI)‡	1,133.1	1,193.0	1,115.0	- 0.6	-21.8	- 3.1	- 3.1
World bond market (Citigroup)††	656.2	662.3	642.6	- 0.7	- 0.9	- 1.5	- 1.5

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

May 12th 2005
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	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 May 11th	year ago	Currency units per $ May 11th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 18.3	Mar	− 39.4	Q4	− 5.6	− 5.0	115.7	110.6	1.29	1.43	2.45	1.67	1.23	+ 0.4
Austria	− 0.1	Feb	− 0.9	Feb	− 0.5	− 0.8	106.0§	105.0	0.77	0.84	1.47	–	0.74	− 2.1
Belgium	+ 17.6	Feb	+ 12.0	Dec	+ 3.4	+ 3.3	108.0§	106.5	0.77	0.84	1.47	–	0.74	− 0.4
Britain	−108.9	Mar	− 49.0	Q4	− 2.6	− 2.6	101.4	101.0	0.53	0.56	–	0.68	0.50	− 3.2
Canada	+ 49.4	Mar	+ 23.4	Q4	+ 1.8	+ 1.5	114.7	104.6	1.25	1.39	2.38	1.62	1.20	+ 1.2
Denmark	+ 9.4	Feb	+ 7.2	Feb	+ 2.2	+ 2.1	106.4	105.6	5.75	6.25	10.9	7.44	5.51	+ 1.4
France	− 18.9	Mar	− 9.6	Feb	− 0.3	− 0.1	108.9§	107.3	0.77	0.84	1.47	–	0.74	− 3.1
Germany	+199.4	Mar	+109.0	Mar	+ 3.1	+ 2.9	110.6§	108.7	0.77	0.84	1.47	–	0.74	− 3.5
Italy	− 2.3	Feb	− 16.8	Feb	− 1.0	− 1.1	108.5§	107.0	0.77	0.84	1.47	–	0.74	− 3.1
Japan	+125.6	Feb	+169.5	Feb	+ 3.6	+ 3.6	88.7	85.7	104	113	198	135	–	− 6.4
Netherlands	+ 37.6	Feb	+ 24.1	Q4	+ 3.5	+ 3.5	108.8§	107.3	0.77	0.84	1.47	–	0.74	− 2.7
Spain	− 79.9	Feb	− 53.8	Jan	− 4.9	− 5.0	106.2§	105.1	0.77	0.84	1.47	–	0.74	− 0.1
Sweden	+ 23.0	Mar	+ 28.0	Q4	+ 7.0	+ 6.4	98.1	97.8	7.08	7.70	13.5	9.17	6.79	+ 0.7
Switzerland	+ 7.0	Mar	+ 40.8	Q4	+11.9	+11.4	107.5	107.0	1.19	1.29	2.26	1.54	1.14	− 0.6
United States	−700.9	Mar	−665.9	Q4	− 6.2	− 6.0	83.1	90.0	–	–	1.90	1.30	0.96	− 4.1
Euro area	+ 82.0	Feb	+ 50.6	Feb	+ 0.5	+ 0.5	117.5	114.5	0.77	0.84	1.47	–	0.74	− 2.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.0	Feb	+ 8.5	Feb	na	na	109.5§	108.2	0.77	0.84	1.47	–	0.74	+ 2.1
Greece	− 32.6	Feb	− 10.5	Feb	na	na	105.1§	104.1	0.77	0.84	1.47	–	0.74	− 3.5
Iceland	− 0.7	Mar	− 1.0	Q4	na	na	99.2**	93.0	63.5	73.9	121	82.3	60.9	+ 1.2
Ireland	+ 41.4	Feb	− 0.8	Q4	na	na	114.8§	111.9	0.77	0.84	1.47	–	0.74	− 0.1
Luxembourg	− 4.6	Jan	+ 2.9	Q4	na	na	108.0§	106.5	0.77	0.84	1.47	–	0.74	− 0.8
New Zealand	− 3.0	Mar	− 6.2	Q4	na	na	138.6	123.3	1.38	1.63	2.62	1.78	1.32	+ 2.1
Norway	+ 36.5	Mar	+ 34.4	Dec	na	na	108.4	105.9	6.25	6.88	11.9	8.10	6.00	+ 10.5
Portugal	− 19.2	Feb	− 13.6	Feb	na	na	105.8**	105.2	0.77	0.84	1.47	–	0.74	− 3.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, March average. ‡OECD forecast. **IMF, January average.

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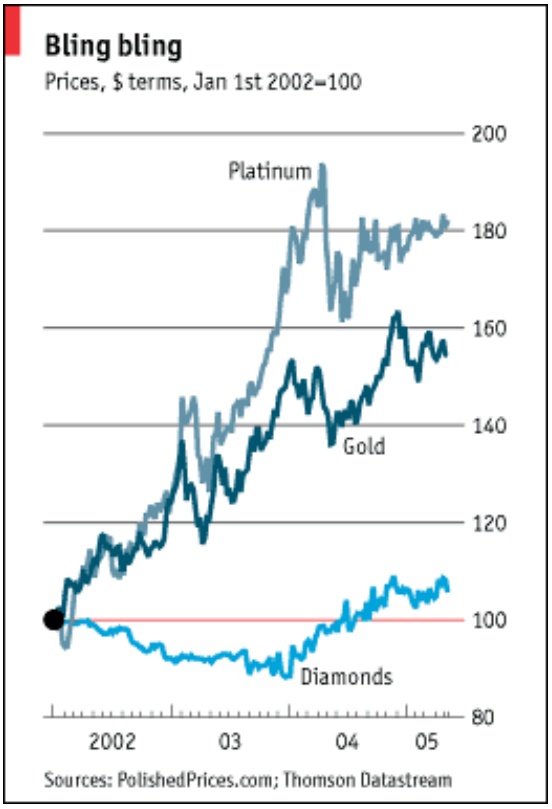

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Overview

May 12th 2005
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Industrial production faltered in the **Czech Republic**, where it grew by just 0.1% in the year to March, and in neighbouring **Poland**, where it shrank by 3.7% in the same period.

In East Asia, **Malaysia's** industrial production slowed down, growing by 5.0% in the year to March, compared with 7.6% in the year to February. **Taiwan's** trade surplus narrowed to $3.6 billion for the year to April.

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Inflation rates

May 12th 2005
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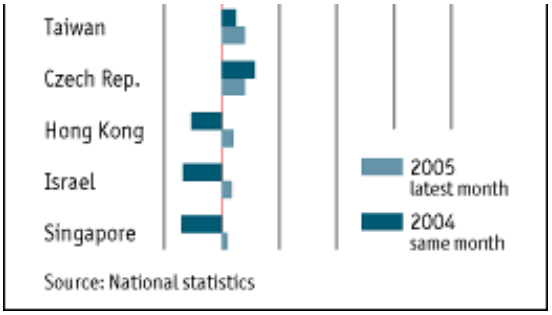
Over the past year, inflation has resurfaced as a worry in several emerging economies. In Russia, consumer-price inflation rose from 10.3% to 13.4%. In Argentina and the Philippines, it has more than doubled to over 8%. But price pressures are easing in Venezuela and Turkey, which have both suffered from acute inflation in the past. Israel and Singapore still flirt with deflation.



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Economy

May 12th 2005
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q1	+15.1	Mar	+ 2.7	Mar	+57.3	Mar	+45.9	2003	659.1	Mar
Hong Kong	+ 7.1	Q4	+ 5.0	Q4	+ 0.8	Mar	−11.0	Mar	+16.0	Q4	122.6	Apr
India	+ 6.2	Q4	+ 7.2	Mar	+ 4.2	Mar	−26.8	Mar	− 3.9	Q4	136.0	Apr
Indonesia	+ 6.7	Q4	− 5.7	Jan	+ 8.1	Apr	+27.4	Mar	+ 2.9	Q4	35.2	Feb
Malaysia	+ 5.6	Q4	+ 5.0	Mar	+ 2.6	Mar	+22.8	Mar	+15.1	Q4	71.7	Mar
Philippines	+ 5.4	Q4	+ 2.4	Feb	+ 8.5	Apr	− 0.1	Feb	+ 2.1	Dec	14.1	Apr
Singapore	+ 2.4	Q1	+ 8.3	Mar	+ 0.4	Mar	+15.8	Mar	+27.9	Q4	116.6	Apr
South Korea	+ 3.3	Q4	+ 4.8	Mar	+ 3.1	Apr	+28.8	Apr	+27.5	Mar	205.4	Mar
Taiwan	+ 3.3	Q4	− 0.8	Mar	+ 1.6	Apr	+ 3.6	Apr	+19.0	Q4	251.1	Mar
Thailand	+ 5.1	Q4	+ 7.1	Mar	+ 3.6	Apr	− 1.8	Mar	+ 3.6	Apr	47.7	Mar
Argentina	+ 8.4	Q4	+ 5.4	Mar	+ 8.8	Apr	+11.7	Mar	+ 3.0	Q4	19.6	Mar
Brazil	+ 4.9	Q4	+ 4.4	Feb	+ 8.1	Apr	+35.9	Mar	+12.7	Mar	58.5	Feb
Chile	+ 7.3	Q4	+ 2.3	Mar	+ 2.9	Apr	+ 9.1	Apr	+ 1.4	Q4	15.4	Mar
Colombia	+ 4.3	Q4	+ 2.0	Jan	+ 5.0	Apr	+ 0.9	Dec	− 1.1	Q4	12.6	Mar
Mexico	+ 4.9	Q4	+ 2.0	Feb	+ 4.6	Apr	− 9.9	Mar	− 8.7	Q4	64.1	Mar
Peru	+ 6.8	Feb	+ 2.1	Mar	+ 2.0	Apr	+ 3.0	Feb	− 0.1	Q4	13.6	Mar
Venezuela	+11.2	Q4	+ 9.5	Feb	+15.8	Apr	+22.1	Q4	+14.6	Q4	19.1	Feb
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 6.8	Feb	− 9.0	Q4	+ 4.3	Q4	15.7	Feb
Israel	+ 4.8	Q4	+ 2.2	Feb	+ 0.7	Mar	− 7.0	Mar	+ 0.5	Q4	26.7	Apr
South Africa	+ 4.7	Q4	+ 2.7	Feb	+ 3.0	Mar	− 2.7	Mar	− 7.0	Q4	14.3	Apr
Czech Republic	+ 4.3	Q4	+ 0.1	Mar	+ 1.6	Apr	+ 0.1	Mar	− 5.6	Q4	27.8	Apr
Hungary	+ 3.8	Q4	+ 3.9	Mar	+ 3.9	Apr	− 2.9	Q4	− 8.8	Q4	17.3	Apr
Poland	+ 3.9	Q4	− 3.7	Mar	+ 3.4	Mar	− 4.9	Feb	− 3.2	Feb	36.8	Mar
Russia	+ 4.9	Q1	+ 4.0	Mar	+13.4	Apr	+97.6	Mar	+60.1	Q4	140.5	Apr
Turkey	+ 6.3	Q4	+ 5.5	Mar	+ 8.2	Apr	−35.9	Mar	−16.4	Feb	38.1	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+12.1	Mar	+ 5.0	Mar	− 1.7	Feb	− 1.4	Q4	1.6	Feb
Latvia	+ 8.6	Q4	+ 1.3	Feb	+ 6.4	Mar	− 2.8	Feb	− 1.7	Feb	2.0	Feb
Lithuania	+ 5.5	Q1	na		+ 3.2	Mar	− 3.0	Feb	− 1.6	Q4	3.6	Feb
Slovakia	+ 5.8	Q4	nil	Feb	+ 2.5	Mar	− 1.6	Feb	− 1.6	Jan	16.7	Feb
Slovenia	+ 4.3	Q4	+ 0.5	Feb	+ 2.7	Apr	− 1.6	Feb	− 0.3	Feb	8.6	Jan
Pakistan	+ 6.4	2004†	+28.3	Nov	+10.2	Mar	− 6.0	Mar	− 0.9	Q4	10.7	Mar
Saudi Arabia	+ 5.3	2004	na		+ 0.8	Jan	+68.5	2004	+28.0	2003	23.3	Mar

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 11th		Dec 31st 2004	
	May 11th	year ago	May 11th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.5	2.50	1,180.1	– 3.0	– 11.3	– 11.3
Hong Kong	7.80	7.80	14.6	2.25	13,939.8	nil	– 2.0	– 2.4
India	43.2	45.4	81.0	5.19	6,445.1	+ 2.5	– 2.4	– 1.9
Indonesia	9,458	8,950	17,724	7.89	1,057.1	+ 0.7	+ 5.7	+ 3.7
Malaysia	3.80	3.80	7.12	2.83	898.7	– 0.5	– 1.0	– 1.0
Philippines	54.2	55.8	101.6	5.06	1,921.3	+ 3.0	+ 5.4	+ 9.1
Singapore	1.64	1.72	3.08	2.13	2,173.1	+ 1.1	+ 5.2	+ 4.4
South Korea	998	1,182	1,869	3.51	923.4	– 0.6	+ 3.1	+ 7.0
Taiwan	31.0	33.4	58.2	1.40	5,917.1	+ 2.0	– 3.6	– 1.6
Thailand	39.4	40.6	73.9	2.65	684.7	+ 1.4	+ 2.5	+ 1.0
Argentina	2.89	2.92	5.42	5.25	1,400.5	– 2.9	+ 1.8	+ 4.6
Brazil	2.48	3.11	4.64	19.52	24,698.0	– 3.0	– 5.7	+ 1.1
Chile	577	641	1,082	3.36	9,265.4	– 0.5	+ 3.4	– 0.5
Colombia	2,338	2,732	4,381	7.32	4,920.0	– 0.1	+ 13.2	+ 13.9
Mexico	11.0	11.6	20.7	9.81	12,464.8	– 1.4	– 3.5	– 2.5
Peru	3.25	3.49	6.10	2.95	3,863.9	– 0.6	+ 4.1	+ 4.9
Venezuela	2,711§	3,060§	5,081	11.97	23,887.1	– 1.7	– 20.2	– 24.2
Egypt	5.80	6.19	10.87	10.03**	38,800.8	+ 4.0	+ 57.8	+ 65.2
Israel	4.37	4.62	8.19	3.47	696.5	+ 0.8	+ 8.2	+ 6.9
South Africa	6.17	6.88	11.6	7.05	13,106.1	+ 3.4	+ 3.5	– 5.5
Czech Republic	23.4	27.0	43.8	1.78	1,113.6	+ 0.2	+ 7.9	+ 3.0
Hungary	195	213	365	7.47	16,098.5	– 1.9	+ 9.2	+ 1.2
Poland	3.24	4.02	6.07	5.51	25,736.8	– 0.5	– 3.4	– 10.6
Russia	27.9	29.1	52.2	13.00	662.8‡	– 0.9	+ 8.5	+ 7.9
Turkey	1.37	1.54	2.57	16.60	24,662.9	+ 0.4	– 1.2	– 2.8
EM (MSCI)*	1.00	1.00	1.87	na	543.3	+ 0.1	+ 0.2	+ 0.2
EMBI+†	1.00	1.00	1.87	na	333.3	– 0.2	+ 1.1	+ 1.1

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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